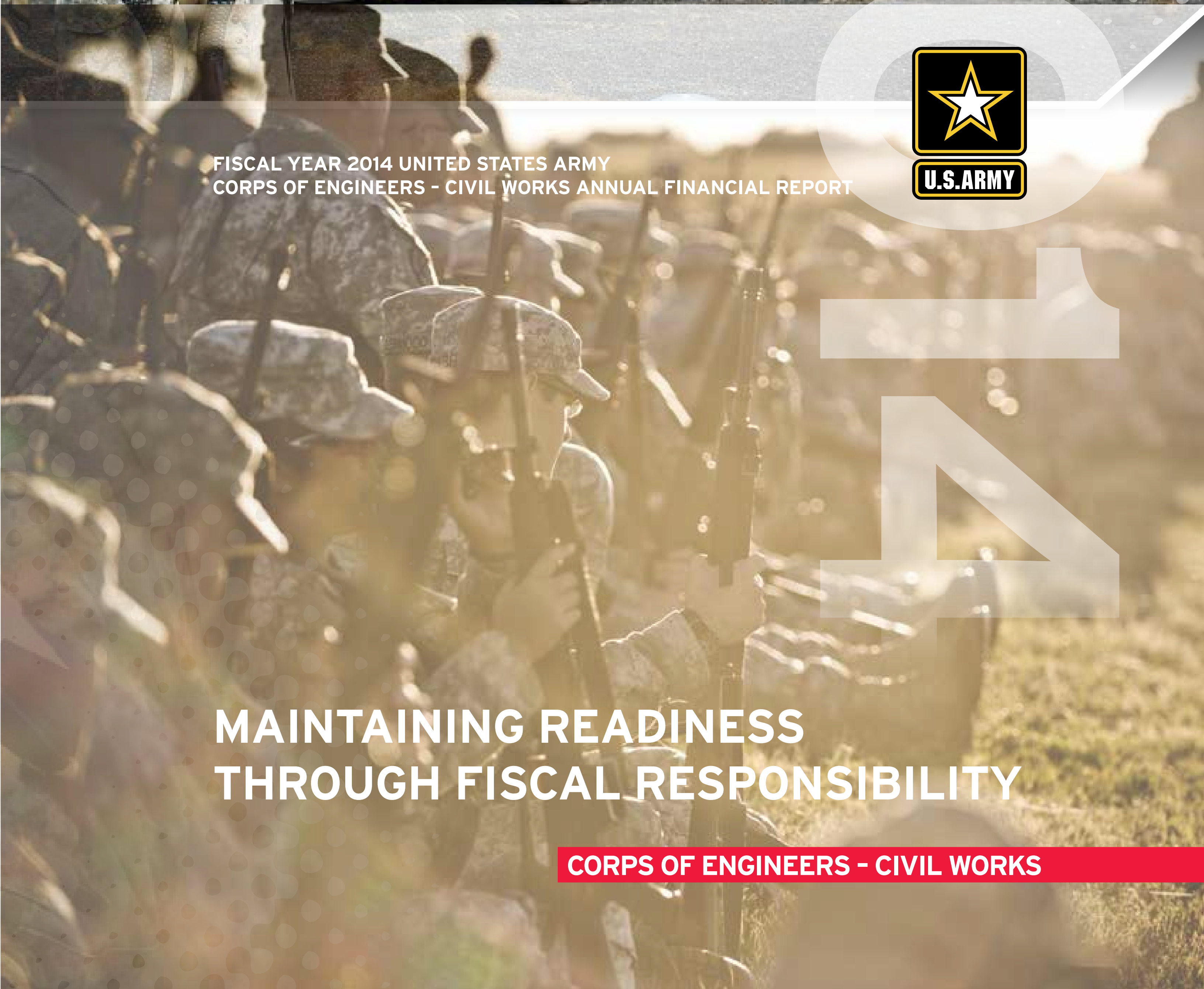

FISCAL YEAR 2014 UNITED STATES ARMY
CORPS OF ENGINEERS - CIVIL WORKS ANNUAL FINANCIAL REPORT

U.S.ARMY

MAINTAINING READINESS THROUGH FISCAL RESPONSIBILITY

CORPS OF ENGINEERS - CIVIL WORKS

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MAINTAINING READINESS THROUGH FISCAL RESPONSIBILITY

2014

COVER PHOTOS

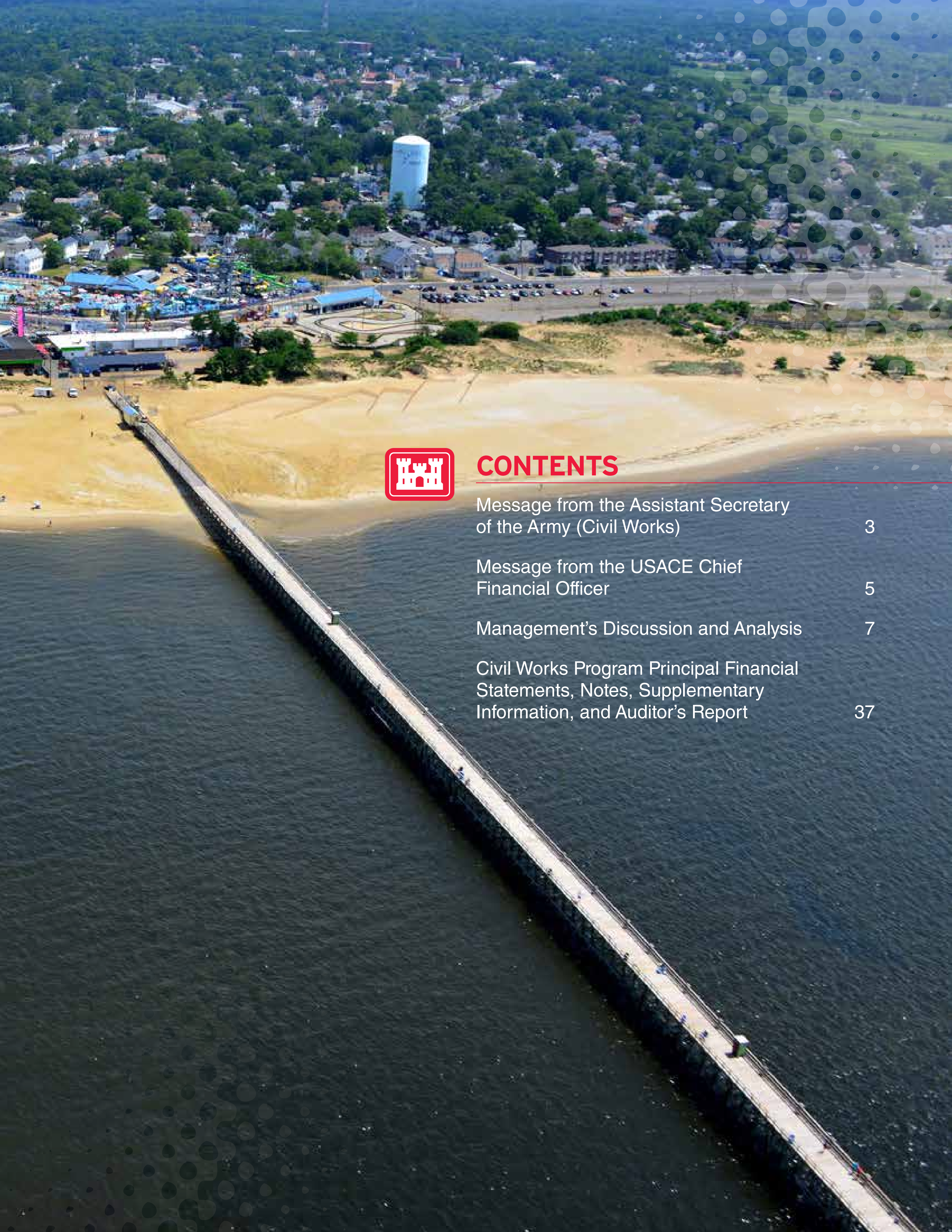
(FRONT): *Crew members conduct sling load training near Savannah, GA. (Photo courtesy of the Georgia National Guard)*

Army Reserve Soldiers and competitors listen to a class on rifle marksmanship before the inaugural Army Reserve Small Arms Championship. (U.S. Army photo by Sgt. 1st Class Michel Sauret)

(BACK): *Soldiers march in formation to kick off a departure ceremony. (U.S. Army Reserve photo by Sgt. 1st Class Mark Bell)*

(INSIDE COVER): *Aerial shot showing a complete beach restoration project that is a part of Flood Coastal and Coastal Emergency Act serving as a buffer from coastal flooding. (Photo courtesy of U.S. Army Corps of Engineers)*

CORPS OF ENGINEERS – CIVIL WORKS



CONTENTS

MAINTAINING READINESS THROUGH FISCAL RESPONSIBILITY

2014

The U.S. Army Corps of Engineers continues to consistently deliver innovative, resilient, risk informed solutions to the Nation's most complex water resource challenges and to serve the Nation through identification, construction, operation and maintenance of water resources infrastructure that will reduce flood risk to communities; facilitate commercial navigation; and restore degraded aquatic ecosystems.

Over the past 5 years, annual regular appropriations for the Army Civil Works Program averaged over $5 billion; an additional $7 billion was appropriated for disaster relief. These funds, coupled with funding provided from non-Federal cost-sharing partners and other receipts, were used to accomplish core missions of flood risk management, navigation, and ecosystem restoration as well as to provide renewable hydropower, prevent future environmental losses, provide proper stewardship and recreation opportunities for the public, and to implement effective, reliable, and adaptive life-cycle performance management of aging infrastructure.

In Fiscal Year 2014, the Corps of Engineers obligated more than $6 billion and expended more than $5 billion of regular and disaster relief appropriations. In addition, approximately $3 billion is expended annually as part of the Army Civil Works program to support State and local governments, other Federal agencies, international organizations and foreign governments.

The Corps of Engineers is operating in a more complex, resource-constrained environment requiring greater collaboration and trust with our customers, partners, stakeholders and the public. In an ongoing effort to maximize taxpayer dollars and return the highest value to the Nation, the Army continues to seek opportunities to deliver planning study solutions in a timely and cost-effective manner, to manage cost, schedule, and scope growth of on-going construction projects, and to use risk to prioritize maintenance needs.

As is demonstrated in the following pages, the Army continues to be committed to managing the Nation's water resources in a fiscally responsible manner.

Jo-Ellen Darcy
Jo-Ellen Darcy
Assistant Secretary of the Army
(Civil Works)

MAINTAINING READINESS THROUGH FISCAL RESPONSIBILITY

2014

The United States Army Corps of Engineers (USACE) Civil Works Annual Financial Report highlights our financial position and results of operations for Fiscal Year (FY) 2014. Through USACE's commitment to our financial business processes and strong devotion to accountability, we provide assurance over the reliability of our financial reporting for the approximately $17.7 billion of FY 2014 funds obligated for our Civil Works activities. I am proud to say that the continued hard work and commitment of USACE employees and our financial business processes led to our seventh consecutive "clean" unmodified (AICPA's replacement term for unqualified) audit opinion and for the third straight year our operations are free of material weaknesses.

The beginning of FY 2014 was difficult and frustrating for USACE employees due to the government shutdown, especially since it came on the heels of the FY 2013 furloughs. However, in the face of these challenges, the USACE workforce remained steady and enthusiastic, ensuring that internal controls and financial reporting processes remained strong.

Every USACE District contributed to USACE achieving a "clean" unmodified audit opinion year after year. Their devotion to creating and maintaining transparent financial records and their emphasis on accountability have led to an environment of audit sustainability within USACE. These efforts along with good working relationships with the external auditors, a strong financial management system, and the USACE Finance Center have led to significant cost savings over the years as sample size has reduced by 86% since FY 2010 and cost per year has reduced by 36% since FY 2011.

Moving forward we will continue to place utmost attention on the morale and well-being of our employees as we wade through an uncertain and strained fiscal reality of dwindling resources. This report and the accomplishments it describes reflect their extraordinary dedication to duty.

Wesley C. Miller
Chief Financial Officer

The Corps, through partnerships with other government and non-government organizations, accomplishes its multi-faceted missions in an environmentally sustainable manner that is both economically and technically sound.

Eagles perched near Longview Lake. (Photo courtesy of U.S. Army Corps of Engineers)

Fishing at the Bradford Island Recreation Area at Bonneville Lock and Dam. (Photo by Eric Hamilton)

OVERVIEW

The United States Army Corps of Engineers (USACE) is comprised of two major programs: the Civil Works program and the Military program. These financial statements represent only the Army Civil Works program (USACE-CW). The Military program is reported within the Army General Fund Financial Statements.

Mission

The USACE-CW mission is to (1) contribute to the national welfare and serve the nation with quality and responsive development and management of the Nation's water resources; (2) protect, restore, and manage the aquatic environment; and (3) provide engineering and technical services. This multi-faceted mission is accomplished in an environmentally sustainable manner that is both economically and technically sound.

Developing and Managing the Nation's Water Resources

The original role of the USACE-CW, as it related to water resources, was to support lake, riverine, coastal, and inland navigation by building breakwaters and other structures by developing navigation channels. Over the years, the USACE-CW role expanded to include: (1) flood risk management; (2) improvement of aquatic habitat; (3) generation of hydroelectric power at USACE-CW dams constructed primarily for other purposes; (4) recreation opportunities at USACE-CW dams constructed primarily for other purposes; (5) water storage for municipal and industrial water at USACE-CW dams constructed primarily for other purposes; (6) regulation of obstructions in and discharges into navigable waters; and, (7) disaster response and emergency planning and management.

Protecting, Restoring and Managing the Aquatic Environment

The Rivers and Harbors Act of 1890 required the USACE-CW to prevent the obstruction of navigable waterways. As environmental concerns grew in the 20th century, several statutes were passed promoting conservation of fish and wildlife. The National Environmental Policy Act, enacted in 1970, emphasized the need to consider environmental impacts when planning projects. The Clean Water Act of 1972 greatly broadened the scope of the USACE-CW's responsibility for regulating discharges into U.S. waters, including the country's wetlands. The USACE-CW's

environmental responsibilities have continued to increase through legislation, and now include aquatic ecosystem restoration, clean-up of early atomic energy program sites, and stewardship responsibilities at USACE-CW dams.

Responding and Assisting in Disaster Relief

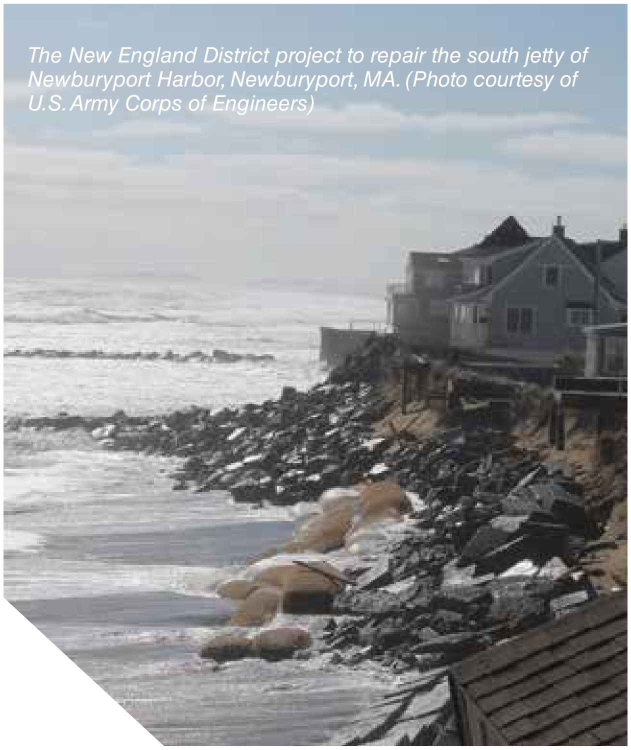
Throughout history, the United States (U.S.) has relied on the USACE-CW for help both in times of natural and man-made disasters. The USACE-CW responds to disasters under two primary authorities: the Flood Control and Coastal Emergency Act (Public Law [P.L.] 84-99, as amended) and to the Robert T. Stafford Disaster Relief and Emergency Assistance Act (P.L. 93-288, as amended). The USACE-CW primary role in emergency relief and recovery operations is to provide public works and engineering support.

Providing Engineering Support and Technical Services

In Titles 10 and 33 of the U.S. Code (U.S.C.), Congress authorized the USACE-CW to provide services on a reimbursable basis to other federal entities, both state and local, as well as tribal governments, private firms, and international organizations. Additionally, authority to provide services to all federal agencies is found in Titles 15, 22, and 31, which include providing services to foreign governments.

THE CIVIL WORKS PROGRAM

The USACE-CW is funded primarily through Energy and Water Development appropriations. Those appropriations are provided at the account level – Investigations (I), Construction (C), Operation and Maintenance (O&M), Mississippi River & Tributaries (MR&T), Flood Control and Coastal Emergencies (FCCE), Regulatory, Expenses, Formerly Utilized Sites Remedial Action Program (FUSRAP), and the Office of the Assistant Secretary of the Army for Civil Works (OASA-CW).



The New England District project to repair the south jetty of Newburyport Harbor, Newburyport, MA. (Photo courtesy of U.S. Army Corps of Engineers)

The USACE-CW classifies its work by business lines, which provide a framework for describing the Army Civil Works program and is the framework used for developing annual budgets; however, funds for the Army Civil Works program are appropriated and apportioned by account. Associated civil works activities fall under one or more business lines.

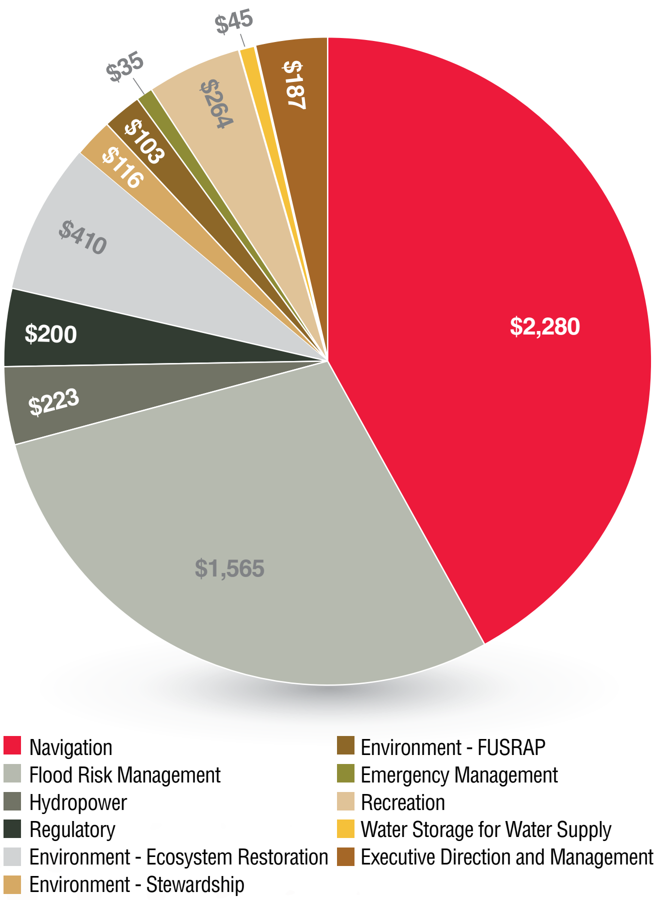
In Fiscal Year (FY) 2014, the USACE-CW carried $11,745 million unobligated and $6,615 million in unpaid obligations into FY 2014 and the USACE-CW received a total of $5,910 million in new budget authority to include $277 million in recoveries. Of the $24,546 million available for expenditure, the USACE expended a total of $7,205 million or 29% of the total available. The targets identified in the business line performance tables are limited to FY 2014 allocations.

A description of the business lines of the USACE-CW follows Figure 1. Figure 1 lists the business lines that receive direct appropriations and the funds used for executive direction and management for FY 2014. The targets identified in the business line performance tables are limited to these FY 2014 allocations and do not include funds carried over from prior years.

Through the American Recovery and Reinvestment Act (ARRA) of 2009, the USACE-CW received $4,600 million. All of the USACE-CW business lines, except emergency management, received ARRA funding for various programs, projects, and activities. Specific information on ARRA funding may be found at the USACE-CW Recovery website at *http://www.usace.army.mil/recovery*.

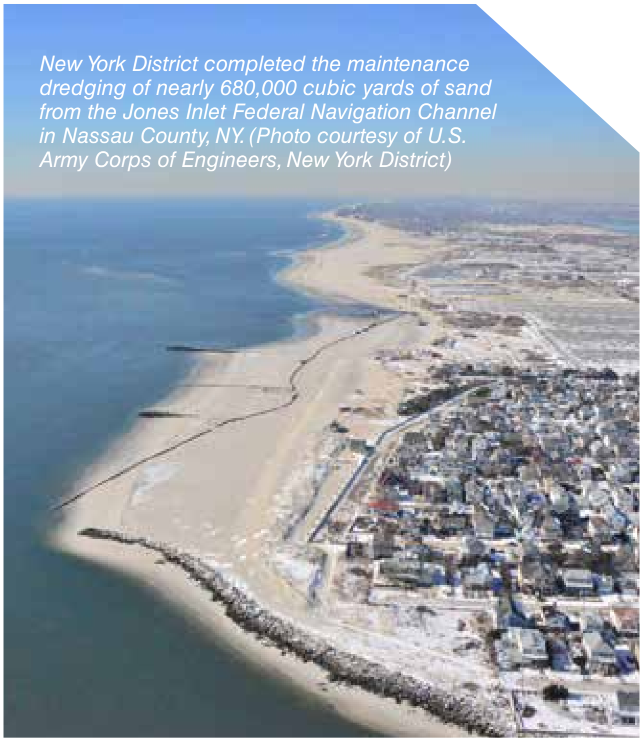
As of the end of FY 2014, 98.5% of the $4,600 million in ARRA funds had been expended. The USACE-CW received the ARRA funds in FY 2009 and expects to expend the rest of these funds in FY 2015. These funds are included in the expenditure totals but not in the business line performance table targets.

FIGURE 1. FY 2014 USACE-Civil Works Appropriations (in Millions) by Business Line[1]



[1] Executive Direction and Management includes $182 million for Expenses and $5 million for OASA-CW.

Through the Disaster Relief Appropriations Act of 2013, (P.L. 113-2), the USACE-CW received $5,100 million (net of sequestration) for repairs, rehabilitation, and recovery from the effect of Hurricane Sandy. Funds were provided in six appropriations – I, C, O&M, FCCE, MR&T, and Expenses. The funds will be used primarily for flood risk management, including developing a comprehensive risk management plan, sustainable risk management projects, repairing and restoring damaged flood risk management projects, and maintenance dredging of affected navigation channels. These funds are available until expended and, in the case of studies and construction, will be used over a period of years to implement recovery and sustainable development plans. These funds are included in the expenditure totals, but not in the applicable business line performance table targets.



New York District completed the maintenance dredging of nearly 680,000 cubic yards of sand from the Jones Inlet Federal Navigation Channel in Nassau County, NY. (Photo courtesy of U.S. Army Corps of Engineers, New York District)

Navigation

The Navigation business line supports safe, reliable, highly cost-effective, and environmentally sustainable waterborne transportation systems for the movement of commercial goods. The program funds a combination of capital improvements and the operation and maintenance of existing infrastructure projects. Roughly 97% of America's overseas international trade (by volume) and 64% of its international trade (by value) moves through its ports. Our nation's marine assets include a network of navigable coastal channels, inland waterways, and infrastructure, as well as publicly and privately owned vessels, marine terminals, intermodal connections, shipyards, and repair facilities. The USACE-CW maintains approximately 12,000 miles of inland waterways with 220 locks at 171 sites; approximately 300 deep-draft and 600 shallow-draft Great Lakes and coastal ports extending 13,000 miles and include 21 locks at 15 sites; and more than 900 coastal navigation structures.

In FY 2014, Navigation, estimated at $2,280 million, accounted for almost 42% of the FY 2014 USACE-CW appropriations.

Flood Risk Management

The Flood Risk Management (FRM) business line reduces the risk to human safety and property damage in the event of floods and coastal storms. The USACE-CW manages 8,500 miles of levees and dikes, 383 reservoirs, and more than 90 storm damage reduction projects along 240 miles of the nation's 2,700 miles of shoreline. With the exception of reservoirs, upon completion, most infrastructure built under the auspices of FRM is transferred to the sponsoring cities, towns, and special use districts that own and operate the projects.

Over the years, the USACE-CW mission of addressing the causes and impacts of flooding has evolved to reflect an increased understanding of the complexity and dynamics of flood problems—the interaction of natural forces and human development—as well as for the federal, state, local, and individual partnerships needed to thoroughly manage the risks caused by coastal storms and heavy rains. The USACE-CW flood risk management projects represent sound scientific and engineering solutions that help reduce flood risks.

In FY 2014, Flood Risk Management, estimated at $1,565 million, accounted for more than 28% of the FY 2014 USACE-CW appropriations.

A crab appears near the Charleston District's Shore Protection Project at Folly Beach. (Photo by Sean McBride)

Environment

The USACE-CW has three distinct areas that are focused on the environment: (1) aquatic ecosystem restoration; (2) stewardship of USACE-CW lands; and, (3) Formerly Utilized Sites Remedial Action Program (FUSRAP).

Aquatic Ecosystem Restoration: The USACE-CW mission in aquatic ecosystem restoration is to help restore aquatic habitat to a more natural condition in ecosystems in which structure, function, and dynamic processes have become degraded. The emphasis is on restoration of nationally or regionally significant habitats where the solution primarily involves modifying the hydrology and/or geomorphology. In FY 2014, Aquatic Ecosystem Restoration received approximately $410 million, which translates to 7.6% of the total FY 2014 USACE-CW appropriations.

Environmental Stewardship: Environmental stewardship focuses on managing, conserving, and preserving natural resources on 12 million acres of land and water at 470 multipurpose USACE-CW projects. USACE-CW personnel monitor water quality at the USACE-CW dams and operate fish hatcheries in cooperation with state wildlife agencies. This business line encompasses compliance measures to ensure USACE-CW projects (1) meet federal, state, and local environmental requirements; (2) sustain environmental quality; and, (3) conserve natural and cultural resources. In FY 2014, Environmental Stewardship received $116 million, or 2.1% of the FY 2014 USACE-CW appropriations.

FUSRAP: Under FUSRAP, the USACE-CW remediates former Manhattan Project and Atomic Energy Commission sites, making use of expertise gained in cleansing former military sites and civilian hazardous waste sites under the Environmental Protection Agency's Superfund Program. In FY 2014, FUSRAP received $103 million, or approximately 1.9% of the total FY 2014 USACE-CW appropriations.

Regulation of Aquatic Resources

In accordance with the Rivers and Harbors Act of 1899 (Section 10), and the Clean Water Act of 1972 (Section 404), as amended, the USACE-CW regulates work for navigable rivers as well as the discharge of dredged and fill materials into waters of the U.S., including wetlands. The USACE-CW implements many of its oversight responsibilities by means of a permit process. Throughout the permit evaluation process, the USACE-CW complies with the National Environmental Policy Act and other

applicable environmental and historic preservation laws. In addition to federal statutes, the USACE-CW also considers the views of other federal, tribal, state, and local governments, as well as other agencies, interest groups, and the general public when rendering its final permit decisions. Regulatory responsibilities include evaluating minor activities, such as driveways for small landowners as well as large water supply and energy project proposals which have a substantive effect on the nation's economy.

In FY 2014, at $200 million, the Regulatory appropriation accounted for 3.7% of total FY 2014 USACE-CW appropriations.

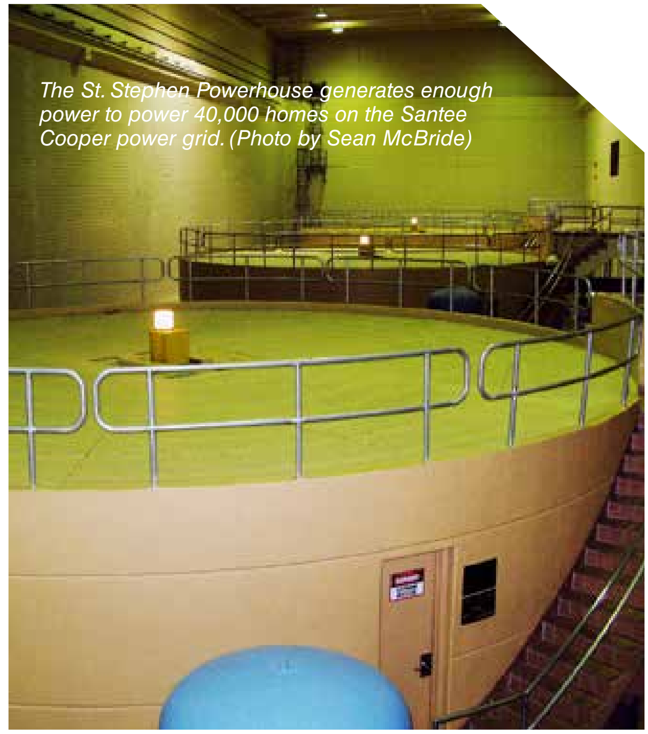
Emergency Management

Emergency management continues to be an important part of the USACE-CW, which directly supports the Federal Emergency Management Agency (FEMA) in carrying out the National Response Framework. It does this by providing emergency support in public works and engineering and by conducting emergency response and recovery activities under the authority of P.L. 84-99, which authorizes USACE-CW to supplement local efforts in the repair of flood control projects (e.g. levees) which are damaged by a flood. In a typical year, the USACE-CW responds to approximately 100 flood and coastal storm events and about 30 presidential disaster declarations. Its highly-trained workforce is prepared to deal with both man-made and natural disasters.

In FY 2014, through regular appropriations, the Emergency Management business line received approximately $28 million to ensure the USACE-CW is prepared to respond to natural disasters. It also received $6.8 million for continuity of operations activities, non-natural disaster preparedness activities, and facility protection. The approximately $35 million received by Emergency Management accounted for 0.6% of total FY 2014 USACE-CW appropriations.

Hydropower

The USACE-CW multipurpose authorities provide hydroelectric power as an additional benefit derived from projects built for navigation and flood damage reduction. This electric generation also provides on-site electricity for other project purposes and business lines. The USACE-CW is the largest owner-operator of hydroelectric power plants in the U.S. and one of the largest in the world. The USACE-CW operates 350 generating units at 75 multipurpose dams, mostly in the Pacific Northwest. These units account for about 24% of America's hydroelectric power and approximately 3% of the country's total electric-generating capacity. Its hydroelectric plants produce nearly 70 million megawatt-hours (MWh) each year, sufficient to serve nearly 7 million households, or the residential consumption of 10 cities the size of Seattle, Washington. Hydropower is a renewable source of energy, producing none of the airborne emissions that contribute to acid rain or the greenhouse effect.



The St. Stephen Powerhouse generates enough power to power 40,000 homes on the Santee Cooper power grid. (Photo by Sean McBride)

In FY 2014, the Hydropower business line funded 54 of the 75 plants at approximately $223 million, which accounted for just over 4% of the total FY 2014 USACE-CW appropriations and approximately 20 million MWh of generation each year. The USACE-CW Hydropower program also receives approximately $440 million each year derived from Department of Energy revenues from power sales from USACE-CW projects.

Recreation

The USACE-CW is an important provider of outdoor recreation, which is an ancillary benefit of its flood damage reduction and navigation projects. The Recreation business line provides quality outdoor public recreation experiences in accordance with its three-part mission to (1) serve the needs of present and future generations; (2) contribute to the quality of American life; and,

(3) manage and conserve natural resources consistent with ecosystem management principles.

The USACE-CW manages over 4,000 recreation sites at more than 422 projects on 13 million acres of land. During FY 2014, 10% of the U.S. population visited a USACE-CW project at least once. These visitors spent $16 billion pursuing their favorite outdoor recreation activities.

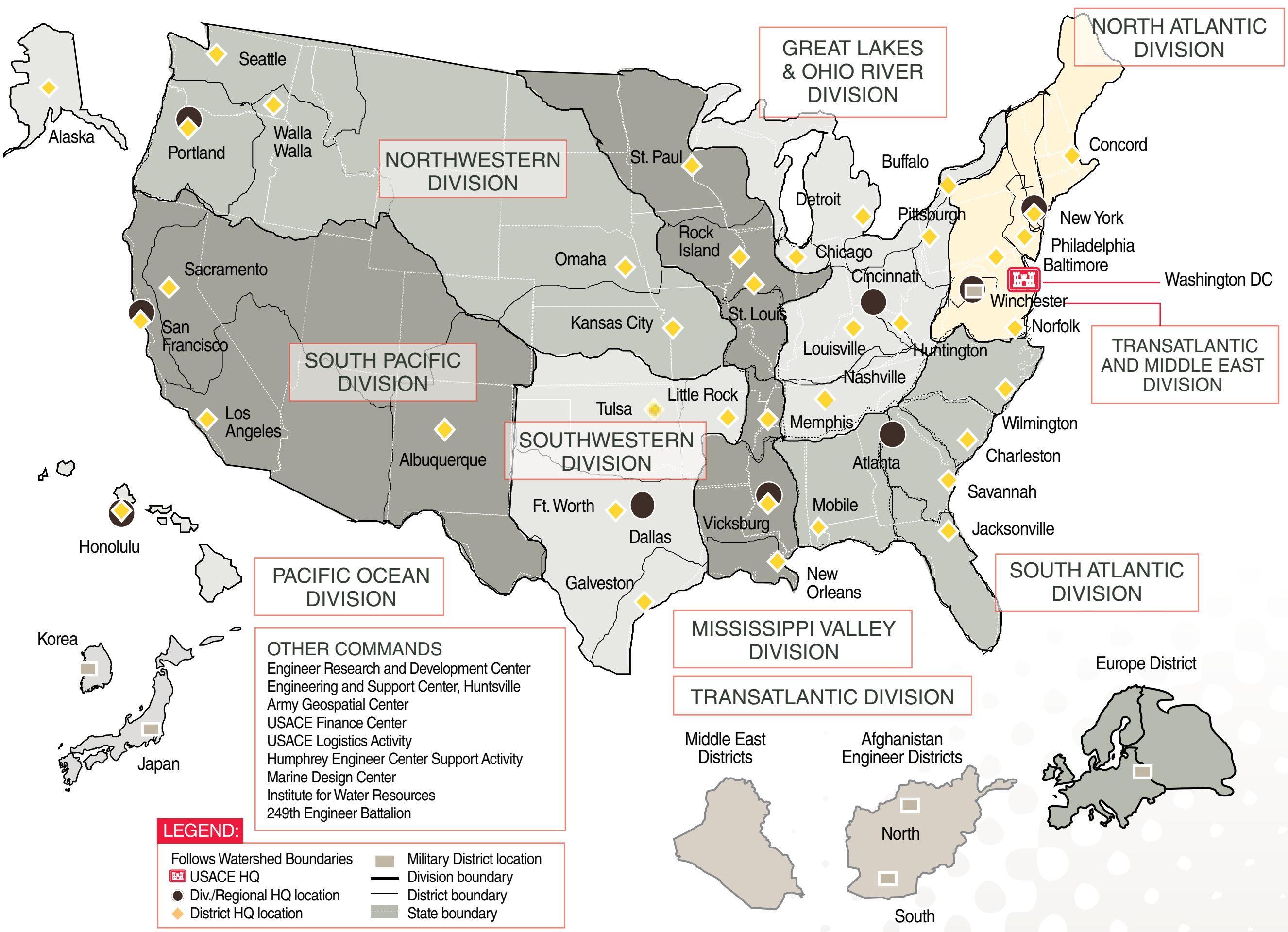
In FY 2014, the Recreation business line accounted for approximately $264 million, or 4.8% of the FY 2014 USACE-CW appropriations.

Water Storage for Water Supply

Conscientious management of the nation's water supply is critical to limiting water shortages and lessening the impact of droughts. The USACE-CW has an important role in ensuring that homes, businesses, and industries, throughout the nation, have enough water to meet their needs. It retains authority for water supply in connection with construction, operation, and modification of federal navigation, flood damage reduction, and multipurpose projects.

In FY 2014, the Water Supply business line accounted for approximately $45 million, or just less than 1% of total FY 2014 USACE-CW appropriations.

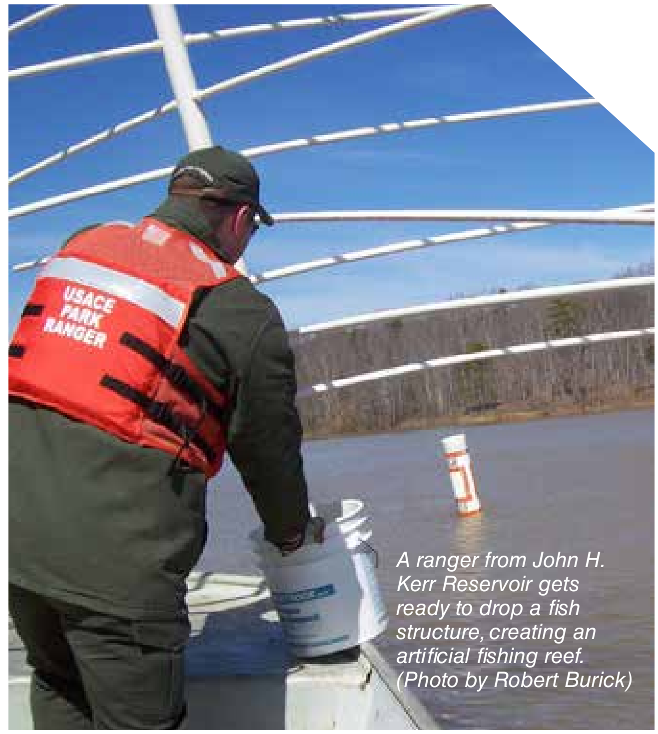
FIGURE 2. USACE-CW Boundaries



ORGANIZATIONAL STRUCTURE

The Workforce

USACE is an executive branch agency within DoD and a major command within the U.S. Army. The USACE consists of two major programs—civil works and military construction—which are supported by two smaller, separate sub-programs—real estate, and research and development. The entire organization employs approximately 37,000 people, including approximately 765 Army officers, noncommissioned officers, and enlisted soldiers. Approximately 24,000 civilian employees work to support the USACE-CW. With the appointment of the first Chief Engineer in 1775, the USACE has a long history and is today one of the world's largest public engineering, design, and construction management agencies.



A ranger from John H. Kerr Reservoir gets ready to drop a fish structure, creating an artificial fishing reef. (Photo by Robert Burick)

The USACE organization consists of a headquarters located in Washington, D.C., nine major subordinate commands (MSCs), six specialized centers, and 46 districts. Out of the 46 districts, 38 carry out civil works responsibilities in the United States. Most of the MSC and district geographic boundaries are aligned with watershed boundaries. There are also several world-renowned research and development laboratories and other offices contributing to the USACE mission. Figure 2 shows the division boundaries, which are defined by watersheds and drainage basins. Through its Pacific Ocean and South Atlantic Divisions, the USACE also has civil works responsibilities in the Territory of American Samoa, the Territory of Guam, the Commonwealth of the Northern Mariana Islands, the Commonwealth of Puerto Rico, and the U.S. Virgin Islands.

The USACE-CW leadership is provided by a presidentially-appointed civilian Assistant Secretary of the Army for Civil Works (ASA(CW)) who is charged with setting the strategic direction and has principal responsibility for the overall supervision of functions relating to the Army Civil Works program and supervising the execution of the Army Civil Works program by the Chief of Engineers. An Army officer serves as the Chief of Engineers to oversee execution of both the Civil Works and Military programs and ensure that policies established by the ASA (CW) are applied to all aspects of the USACE-CW. The Chief of Engineers delegates authority for the leadership and management of the USACE-CW to the Deputy Commanding General for Civil and Emergency Operations and to the civilian Director of Civil Works. USACE-CW divisions are regional offices responsible for the supervision and management of subordinate districts, to include oversight and quality assurance. Districts are the foundation of the USACE-CW, responsible for executing the USACE-CW mission.

Within the USACE-CW, 95% of employees work at the district level (in labs or field operating agencies). The USACE-CW contracts out all of its construction, and most of its design work, to civilian companies.

CIVIL WORKS PROGRAM PERFORMANCE

The USACE-CW has a direct impact on America's prosperity, competitiveness, quality of life, and environmental stability. In September 2011, the USACE leadership published a new strategic plan to provide a framework for enhancing the sustainability of America's resources. The plan's strategic goals support the USACE-CW strategic direction over the five-year period, FY 2014–FY 2018. Those strategic goals are:

Preparing the Longview Lake stilling basin for a periodic inspection. (Photo by Allen Stratton)

Strategic Goal 1: Transform the Civil Works Program to deliver sustainable water resources solutions through Integrated Water Resources Management.

Strategic Goal 2: Improve the safety and resilience of communities and water resources infrastructure.

Strategic Goal 3: Facilitate the transportation of commercial goods on the Nation's coastal channels and inland waterways.

Strategic Goal 4: Restore, protect, and manage aquatic ecosystems to benefit the Nation.

Strategic Goal 5: Manage the life-cycle of water resources infrastructure systems in order to consistently deliver sustainable services.

All strategic goals, except Strategic Goal 3, cut across multiple business lines.

FLOOD RISK MANAGEMENT

Objectives:

- Reduce the Nation's flood risk and increase resilience to disasters

Funding History: The first rows of Table 1 and Table 2 display Flood Risk Management expenditures.

Performance Indicators: Tables 1 and 2 display measures that are performance indicators in determining progress in meeting this objective.

Construction Measures for Flood Risk Management

Number of dam safety classification ratings reduced: This measure tracks the number of Dam Safety Action Classifications (DSAC) reduced as a result of Periodic Inspections, Issue Evaluation Studies, and construction activities, which results in less urgency and lower risk in these cases and an increased understanding of the overall portfolio risk.

Performance Results—Construction and Investigations

Construction funding was used to continue work on 77 construction projects, including work on two high-risk DSAC I dams (Center Hill, Herbert Hoover Dike Dam) and six DSAC II dams (Bluestone, Dover, Canton, Bolivar, Rough River, and East Branch). In addition, construction on one new DSAC I dam was started in FY 2014 (Isabella Lake). Three DSAC I dams (Addicks, Barker, and Pine Creek) are in the pre-construction engineering and design phase of construction. Additionally, FY 2014

appropriations funded 22 flood risk management construction projects to completion.

Dam Safety and Seepage/Stability Correction Program construction funds were used to complete 10 dam safety studies and continue efforts on another 39. Completed studies included eight Qualitative Risk Analyses (C.M. Harden, Hop Brook, Howard Hanson, Edward MacDowell, Mill Creek Diversion, O.C. Fisher, Orwell, Stillhouse Hollow), and two Issue Evaluation Studies (Howard Levee, Mohawk Dam).

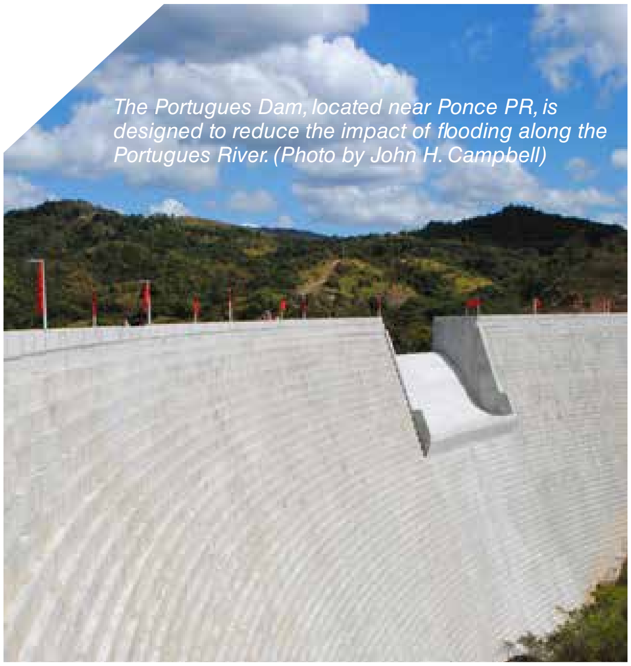
Investigations funding was used to advance 34 continuing feasibility studies and pre-construction, engineering, and design (PED) activities for a total of $21 million. A portion of the funding was used to fund 12 studies and two PED activities to completion.

Investigation funds were used to support state and local flood risk mitigation priorities through the Silver Jackets program. Three new state-level Silver Jackets teams were established in California, Louisiana, and the District of Columbia in FY 2014 to facilitate federal and state coordination and develop collaborative solutions to address state flood risk mitigation priorities bringing the total number of state teams to 43, including the District of Columbia. Through these State intergovernmental teams over 90 special study and technical assistance activities have been implemented in over 40 states that support state and local community flood risk and floodplain management priorities.

In response to the historic flooding in 2011 on the Mississippi River, investigation funds were used to continue the collection of flood and flow data throughout the Mississippi River and tributaries in order to assess potential changes in the systems capability to improve its performance in a large flood. In response to Hurricane Sandy, the USACE-CW re-scoped 17 ongoing studies to address the flood impacts of a large storm. In addition, the USACE-CW completed and approved 10 reevaluation reports to modify previously authorized but unconstructed projects as needed to meet current science and engineering standards. Based on these completed reevaluation reports, the USACE-CW initiated construction on three previously authorized but unconstructed projects. Finally, the USACE-CW made significant progress toward completing the North Atlantic Coast Comprehensive Study which will provide a framework that can be used by agencies and stakeholders at all levels to develop and support resilient coastal communities and robust, sustainable coastal landscape systems.

Ongoing dam safety Periodic Assessments, Issue Evaluation Studies, and construction activities have resulted in an increased understanding of the overall dam portfolio risk. Fifteen dams had reduced DSAC ratings in FY 2014; 13 based on the further evaluation of project risks, and two due to remedial measures (marked with an asterisk).

- Cumberland Levees - Periodic Assessment - DSAC II to III
- Dale Hollow Dam - Periodic Assessment - DSAC III to IV
- R.S. Kerr Lock and Dam - Periodic Assessment - DSAC II to IV
- C.M. Harden Dam - Semi-Quantitative Risk Analysis - DSAC II to III
- Hop Brook Dam - Semi-Quantitative Risk Analysis - DSAC II to IV
- Clearwater Dam - Post Construction Risk Analysis - DSAC I to IV*
- Howard Hanson Dam - Semi-Quantitative Risk Analysis - DSAC III to IV*
- Zoar Levee - Risk Assessment - DSAC I to III
- Pocasse Embankment - Periodic Assessment - DSAC III to IV
- Edward MacDowell Dam - Semi-Quantitative Risk Analysis - DSAC II to III
- Mill Creek Diversion Dam - Semi-Quantitative Risk Analysis - DSAC II to IV
- O.C. Fisher Dam - Semi-Quantitative Risk Analysis - DSAC II to III
- Moose Creek Dam - Dam Safety Modification Study - DSAC I to III
- Orwell Dam - Semi-Quantitative Risk Analysis - DSAC II to IV
- Howard Levee - Issue Evaluation Study - DSAC II to IV



The Portugues Dam, located near Ponce PR, is designed to reduce the impact of flooding along the Portugues River. (Photo by John H. Campbell)

DSAC classifications were increased on five dams. These dams exhibited signs of poor performance or issues of concern that warranted an increase to their urgency for action (DSAC) and were reprioritized for more in-depth evaluation.

- Denison Dam - Periodic Assessment - DSAC IV to III
- Mosquito Creek Dam - Periodic Assessment - DSAC IV to III
- Table Rock Dam - Periodic Assessment - DSAC IV to III
- Abiquiu Dam - Periodic Assessment - DSAC III to II
- West Point Dam - Periodic Assessment - DSAC III to II

TABLE 1. Flood Risk Management – Construction and Investigations

				FY 2014	
	FY 2011	FY 2012	FY 2013	Target	Actual
Expenditures in millions of dollars	$2,172	$1,427	$1,282	$893	$1,248
Number of dam safety classification ratings reduced	Note 1	7	25	10	15

Note 1: FY 2012 is the first year of reporting on this measure.

Operation and maintenance measures for Flood Risk Management

Levee Safety Action Classifications complete: This measure tracks the percentage of Levee Safety Action Classifications (LSAC) complete. All levees in the USACE-CW Levee Safety Program will be assigned a LSAC informed by a risk assessment. The LSAC system is intended to provide consistent and systematic guidelines for actions to address safety issues. The five classes define distinctly different urgencies of action and related types of actions that are commensurate with the risk associated with the levee system. The LSAC will be used by USACE-CW and stakeholders to improve understanding of risk; communication; and quality of decisions. In addition, LSACs will be used to establish priorities and solutions that effectively address the risks.

Performance Results—Operation and Maintenance (O&M)

Systematic and coordinated operation of these projects play a key role in reducing the nation's flood risks, as was seen in the Missouri, Mississippi, and Ohio River watersheds in 2011 when these watersheds were exposed to historic flood levels. The operations of USACE-CW projects in these watersheds were able to significantly mitigate potential damages to life and property during that historic flood event.

The FY 2014 O&M funding provided for the operation and maintenance of 396 flood risk management projects including projects on the main stem of the Mississippi River and its tributaries, in order to maintain basic operation of flood risk management purposes without compromising project purpose and function. A portion of the FY 2014 appropriation was used to fund non-routine maintenance activities on 15 projects with high consequences and failed or inadequate project condition ratings. Maintenance work to improve the condition rating on the 15 high consequence projects has been completed on eight projects in FY 2014 and the maintenance work on the remaining projects is on schedule for contract award and/or construction completion in FY 2015.

The USACE-CW Levee Safety Program encompasses over 14,500 miles of federally-authorized and non-federal levee systems with a total population at risk of over 10 million people. The USACE-CW Levee Safety mission includes working with levee system stakeholders to assess, communicate, reduce, and then manage the risks to people, the economy, and the environment associated with the presence of levee systems. The Levee Safety Program objectives are (1) to develop balanced and informed assessments of levees; (2) to evaluate, prioritize and justify levee safety decisions, and (3) to make recommendations to improve life safety associated with levee systems.

The two activities identified as critical to achieving the programmatic objectives are: (1) the completion of initial periodic inspections of federally authorized levee systems and a comprehensive inspection to include a data review; and (2) screening level risk assessments to initially characterize the risk associated with each levee system in the program. These periodic inspections and risk screenings will greatly improve our understanding of the conditions and risks associated with the nation's levee systems and will improve our ability to inform the public of the risks and recommend the appropriate risk management actions to address the risks. Information gathered over the past few years through surveys, inspections, and risk assessments have provided a better understanding of the condition and risk associated with these levee systems. The most prevalent deficiencies are vegetation, encroachments, and culverts; however, the largest risk drivers are flaws in the foundation and growing consequences (development) within the areas behind these levee systems.

As a result of current assessments completed, the numbers of levee systems that have very high risk is smaller than expected, and concentrated in communities with larger consequences with most levee systems being considered at moderate to low risk.

TABLE 2. Flood Risk Management – Operation and Maintenance

				FY 2014	
	FY 2011	FY 2012	FY 2013	Target	Actual
Expenditures in millions of dollars	$855	$1,087	$761	$672	$723
Percentage of Levee Safety Action Classifications (LSAC) completed	Note 1			60%	59%

Note 1: FY 2014 is the first year of reporting on this measure.

EMERGENCY MANAGEMENT

Disaster preparedness and response capabilities are not limited to flood and coastal storm events, but also contribute to a broad range of natural disasters and national emergencies. Emergency readiness contributes to national security.

Objectives:

- Reduce the Nation's flood risk and increase resilience to disasters
- Support the Department of Homeland Security/ Federal Emergency Management Agency to provide life-cycle public works and engineering support in response to disasters
- Effectively and efficiently execute response, recovery, and mitigation

Funding History: The first row of Table 3 indicates expenditures for emergency preparedness and response and recovery operations.

The Corps initiates an emergency permitting program in response to a storm, which left severe damage on railroad tracks adjacent to the road washout on the Scenic Highway in Pensacola, FL. (Photo courtesy of Florida Department of Transportation)

Performance Indicators: The three primary measures listed in Table 3 assist in determining progress toward meeting the USACE-CW emergency management objectives. Indicators are explained below.

Progress to develop and implement National Flood Characterization tool in collaboration with FEMA: The measure tracks the completion of a characterization tool that will improve the knowledge of flood risk by characterizing relative flood risk at the National, State, and watershed levels. The tool will provide information in a GIS format to support federal, state, and regional decision makers, planners, and policy analysts in determining investment priorities, responding to future conditions and flood risk drivers, improving resilience, and reducing risk in the long term. This measure tracks key milestones over time towards development and implementation of a fully functional and robust tool.

Number of trained and certified Planning Response Teams, Team Leaders, Assistant Team leaders and Subject Matter Experts, and National Emergency Support Function #3 Cadres ready and able to respond: The USACE established designated Planning & Response Teams (PRTs) and a cadre of leaders and subject matter experts to provide rapid emergency response during any All-Hazards contingency. This measure establishes the baseline, calculated as the percentage of trained and certified team members at any time during the entire fiscal year. Anything less than the baseline degrades readiness and may result in the USACE-CW not prepared to respond.

Number of current Annual updated All-hazards contingency plans across USACE-CW: Every command, center, and field operating agency in the USACE-CW must be prepared to respond to the full spectrum of All-Hazards. This measure reflects the percentage of current All-Hazards contingency plans at all echelons, on the shelf and ready for use when needed.

Percent scheduled and executed assigned and funded missions and programs: This measure reflects the USACE-CW commitment to the national preparedness system as articulated in Presidential Policy Directive – 8, *Other Executive Orders and Statutes*. The national preparedness system directs executive agencies to develop interagency operational plans to support each national planning framework. Each interagency operational plan shall include a detailed concept of operations; description of critical tasks and responsibilities; detailed resource, personnel, and sourcing requirements; and specific provisions for the rapid integration of resources and personnel. The USACE-CW metric is measured in part by the Federal Emergency Management Agency (FEMA) assigned missions during disaster response, recovery, and mitigation operations. This measure tracks the percentage of these missions scheduled and executed; anything less than 100% is not acceptable and may result in overall mission failure. Myriad activities and trends must be monitored and adjusted each year, to ensure that we achieve that full execution, for example: monitoring/forecasting of potential weather related threats, conducting pre-disaster operations to strengthen Federal, State, local and tribal coordination, and capturing lessons learned after a disaster response to improve future response activities. These are a few examples that guide the development of doctrine and support programmatic changes in our disaster programs.

Number of active state-led interagency flood risk management teams (Silver Jackets): Silver Jackets Teams provide federal assistance to state and local governments in developing and executing mitigation measures that meet local government needs. Membership consists of the USACE-CW and other federal agencies that can contribute to meeting those needs (i.e. FEMA, EPA, DOT, etc.). State teams normally are represented by state hazard mitigation offices and other government offices (state and local). This measure tracks the number of active teams by state. The target is to have a team in all 50 states.

Performance Results

The USACE-CW is committed to fulfilling the requirements set in the Hurricane Sandy Disaster Relief Appropriations Act of 2013 (Public Law 113-2). Flood Control and Coastal Emergency (FCCE) funding was provided to rehabilitate previously constructed USACE-CW projects that were severely impacted by Hurricane Sandy to pre-storm conditions. In addition, funding and authorization were provided to restore 33 North Atlantic Division projects back to originally authorized conditions; seven remain under construction and 26 are complete. Projected completion for the remaining projects is January 2015.

The USACE-CW responded to many other disasters, large and small. For example, when coastal storms with heavy seas battered groins protecting the Quinault Indian Nation reservation on the Washington State coast in January 2014, the Seattle District quickly deployed a project team and a contractor to build a secondary berm to protect the main village from inundation. The USACE-CW provided Advance Measures technical assistance to Washington State, Colorado, Nevada, and New Mexico in response

Aerial view of the Stillaguamish River and State Route 530 shortly after the Oso landslide. (Photo courtesy of the Washington State Department of Transportation)

to numerous wildfires that burned large sections of the country including the largest wildfire in the history of the State of Washington. The USACE-CW constructed an $11 million project to assist the Santa Clara Pueblo in preventing catastrophic flood damages from future floods and debris flows. This project is the result of the Los Conchas fire in 2011 which burned the canyon watershed above the pueblo and involved a channel excavation to restore conveyance past the pueblo, armoring existing berms/embankments and constructing gabion check structures at three locations in the canyon to reduce debris flow volumes.

The USACE-CW provided technical assistance to the State of Washington and County authorities in response to a mudslide in spring 2014 and executed $506,000 in FEMA mission assignments for regional activation, unwatering, and participation in the debris task force.

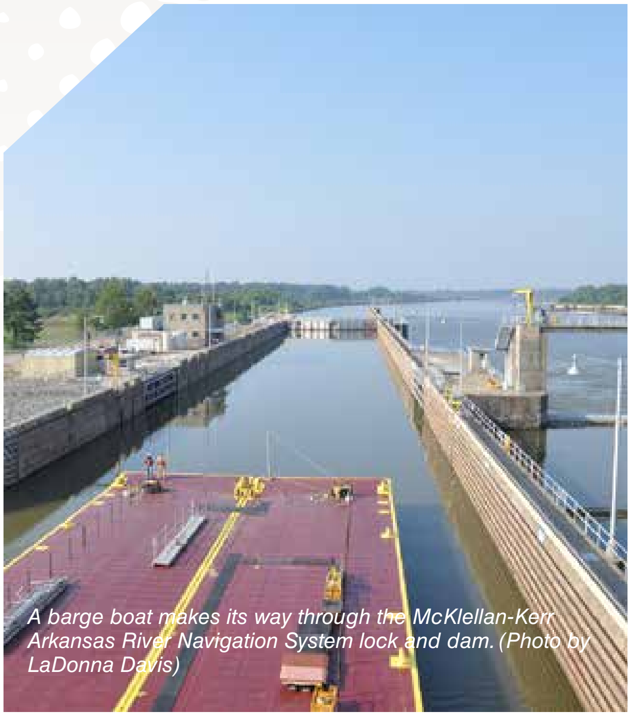
Spring and early summer flooding in the Missouri River Basin and Upper Mississippi damaged over two dozen levees that are now being repaired under PL 84-99 authority. The USACE-CW issued approximately one million sandbags to local entities during the year to support flood-fighting efforts across the nation.

TABLE 3. Emergency Management

				FY 2014	
	FY 2011	FY 2012	FY 2013	Target	Actual
Expenditures in millions of dollars	$1,857	$1,165	$762	$35	$749
Percent progress to develop and implement National Flood Characterization tool in collaboration with FEMA	Note 1			Note 2	
Percentage of trained and certified Planning Response Teams, Team Leaders, Assistant Team leaders and Subject Matter Experts, and National Emergency Support Function #3 Cadres ready and able to respond				85%	100%
Percentage of current Annual updated All-hazards contingency plans across USACE-CW				50%	75%
Percentage of scheduled and executed assigned and funded missions and programs				100%	100%
Number of active state-led interagency flood risk management teams (Silver Jackets)				42	43

Note 1: FY 2014 is the first year of reporting on this measure.

Note 2: The FY 2014 target is to develop, test, and use an initial prototype to inform flood risk management business line budget development. The prototype was developed and tested in FY 2014, but was not used to inform business line budget development..



A barge boat makes its way through the McKlellan-Kerr Arkansas River Navigation System lock and dam. (Photo by LaDonna Davis)

NAVIGATION

Objectives:

- Facilitate commercial navigation by providing safe, reliable, highly cost-effective and environmentally sustainable waterborne transportation systems

Funding History: The first rows of Table 4 and Table 5 indicate Navigation expenditures.

Performance Indicators: Table 5 displays measures that are performance indicators in determining progress in meeting this objective for inland navigation.

Performance Results - Construction and Investigations

Investigations funds of $15.6 million were used in FY 2014 at various locations throughout the nation to continue the study and design of navigation improvements. Examples of those investments are (1) lock replacements and channel improvements; (2) deepening and/or widening of key ports; and, (3) reducing transportation costs, and improving the overall reliability of the navigation infrastructure. Chief of Engineers' reports were completed for the Jacksonville Harbor, FL project to deepen the main channels from 40 to 47 feet and Lake Worth Inlet, FL project to deepen the main channels from 33 to 39 feet. A Limited Reevaluation Report was completed for deepening the Grays Harbor main channel from 36 to 38 feet. A portion of the funds were used to fund ten feasibility studies and two PED activities to completion.

Construction funds of $489 million were used for coastal channel and inland waterways improvements. It also funded seven navigation construction projects to completion. Approximately $346 million were used on inland waterways to (1) complete major rehabilitation of Lockport Lock & Dam, Illinois Waterway; (2) continue construction of replacement locks and dams at Olmsted Lock & Dam, Ohio River and Lock & Dams 2, 3, and 4 at Monongahela River; (3) continue construction of training dikes along the Mississippi River to improve navigation reliability and reduce O&M costs. Major rehabilitation of Emsworth Lock & Dam, and construction of Kentucky Lock & Dam, Tennessee River, and Chickamauga Lock, Tennessee River, continued using previously appropriated Construction, Inland Waterways Trust Fund (IWTF), and ARRA funds.

Construction funds of $143 million for coastal navigation projects were used for:

1) Major channel deepening projects, such as New York and New Jersey Harbor (New York, New Jersey), as well as the Delaware River Main Channel (Delaware, New York, Pennsylvania); 2) channel improvements at Valdez Harbor, Sitka, and False Pass Harbors (Alaska); 3) design for rehabilitation of the Mouth of the Columbia River jetties (Oregon, Washington); 4) construction of dredged material and beneficial use placement sites, including sites at Jacksonville Harbor and Tampa Harbor (Florida), Savannah Harbor (Georgia), Green Bay Harbor (Wisconsin), and Calcasieu River and Pass (Louisiana); 5) mitigation of shoreline damages caused by navigation projects; and 6) study and design for deepening and widening of Mobile Harbor (Alabama) and Savannah Harbor (Georgia) deep draft navigation channels.

TABLE 4. Navigation – Construction & Investigations

				FY 2014	
	FY 2011	FY 2012	FY 2013	Target	Actual
Expenditures in millions of dollars	$654	$533	$517	$528	$481

Operation and maintenance measures for inland waterways

Segment ton-miles: The sum total of movement of cargo on a specific waterway. This measure is a roll-up of tons of cargo transported by a vessel multiplied by the miles that vessel traveled on the particular inland waterway. Although there is no specific USACE-CW target, this indicator is used to compare the level of commercial use among each of the inland waterways, and for trend analysis.

Availability: The number of times that mechanical-driven failure or shoaling results in the closure of all, or part of, any high- or moderate-commercial-use inland waterway for more than 24 hours. The measure includes only failures on the main lock chamber (rather than an auxiliary chamber) and shoaling due to dredging practices (rather than low water from droughts or high water from floods). It also tracks closures of more than one week.

Performance Results—Operation and Maintenance

The Operation and Maintenance (O&M) and the Mississippi River and Tributaries O&M appropriations of $624 million were used to fund (1) continued operation and maintenance of 220 locks at 171 locations; and, (2) maintenance dredging of high commercial-use reaches at coastal ports and on the inland waterways. Maintenance included repair and replacement of major lock and dam components such as lock miter gates, dam tainter gates, operating machinery, and lock walls, as well as maintenance dredging.

A risk-based process is used to establish priorities among the maintenance and rehabilitation of inland waterways navigation features such as locks and dams. The overall condition of the inland waterways has improved over the last few years. The number of lock closures due to preventable mechanical breakdowns and failures lasting longer than one day and lasting longer than one week has decreased since FY 2010, which had the highest instances of closures over the past 15 years. However, the lock closures that do occur result in additional costs to shippers, carriers, and users. An unscheduled 52-day closure at Greenup Locks and Dams in Ohio, for example, cost shippers and carriers over $42 million. Additionally, rehabilitations and improvements to inland waterways are being delayed by the low balance in the Inland Waterways Trust Fund (IWTF) due to the fact that the amounts paid by commercial users is not sufficient to cover their share (one-half) of the cost of these capital improvements.

Funding of $1,040 million enabled maintenance dredging and maintenance of locks, dams, and other navigation structures. It also enabled removal of debris at high and moderate-use, commercial coastal ports; critical harbors of refuge and subsistence harbors.

TABLE 5. Navigation – Operation and Maintenance

					FY 2014	
		FY 2011	FY 2012	FY 2013	Target	Actual
Inland Waterways	Expenditures in millions of dollars	$1,878	$1,662	$1,715	$1,753	$1,668
	Ton-miles in billions of tons	242	267	251	Note 1	Note 2
	Preventable lock closures over 24 hours	50	39	28	46	35
	Preventable lock closures over 7 days	26	19	16	26	18
	Preventable lock closures over 7 days	26	19	16	26	18

Note 1: The USACE-CW does not set targets for this measure.

Note 2: Waterborne Commerce Statistics Center data for FY 2014 will not be available until late spring 2015.

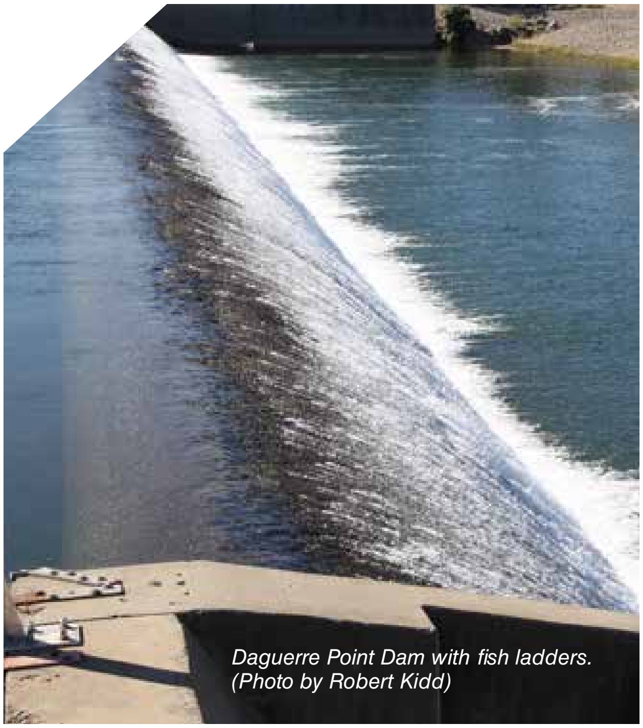
AQUATIC ECOSYSTEM RESTORATION

Objective: Restore aquatic habitat to a more natural condition in ecosystems in which structure, function, and dynamic processes have been degraded

Funding History: The first row of Table 6 displays the expenditures for aquatic ecosystem restoration.

Performance Indicators: The USACE-CW has established two indicators to assess progress in meeting this objective; data are shown in Table 6.

Acres of habitat restored, created, improved, or protected annually: The number of acres of habitat restored in degraded ecosystems.



Daguerre Point Dam with fish ladders. (Photo by Robert Kidd)

Performance Results

Funding was provided to continue efforts in several important ecosystems. This includes: (1) Continued implementation of Everglades restoration efforts; (2) Modifications to the Chicago Sanitary and Ship Canal to prevent the transfer of invasive species between the Great Lakes and Mississippi River basins, including the initiation of a feasibility study on the Illinois River at the Brandon Road Lock and Dam; and (3) Continued work on the restoration of Poplar Island (Maryland) using dredged material from the Baltimore Channel. In the Gulf Coast ecosystem, the USACE-CW made significant strides in advancing the Mississippi River Hydrodynamic Model and Delta Management Study. There are now comprehensive hydraulic models of the entire lower Mississippi River that will be invaluable to future water resource projects utilizing Mississippi River resources in Louisiana. In the Bay Delta ecosystem, the Yuba Fish Passage study and construction of Hamilton City restoration proceeded.

The multimillion dollar effort directed towards meeting the requirements of biological opinions affecting various projects on the Columbia River system and the Missouri River continues to be a USACE-CW priority. Other projects receiving construction funding include restoration of Napa Salt Marsh (California) and the Upper Mississippi River Restoration (UMRR). The latter had one habitat project complete, benefiting 2,035 acres. An additional nine projects in this restoration are under construction that, when completed, will benefit an additional 31,526 acres. The UMRR completed a strategic plan that covers the next decade.

Investigations funding was used to advance 36 continuing feasibility studies and preconstruction, engineering, and design (PED) activities for a total of $20.1 million. A portion of the funding was used to fund six feasibility studies and two PED activities to completion. The Comprehensive Everglades Planning Project feasibility report, which incorporates updated science and technical information gained over the last decade, was completed. One Chief of Engineer's report was signed in FY 2014 - Willamette River Floodplain Restoration Project, Oregon, which is expected to restore 574 acres of floodplain and aquatic habitats when complete.

Construction funds of $335 million were used to advance 19 construction projects and fund three construction projects to completion. Twenty-four projects were physically completed in FY 2014. This includes portions of projects that provide benefits even if no other work is done, such as the Harris Creek, MD oyster restoration. Three large projects that were projected to provide the bulk of the restored habitat in FY 2014 did not complete as anticipated due to a variety of challenges, including record flooding. Many separable elements and smaller projects unaccounted for in the target were completed, providing the total of 4,098 acres of habitat actually restored.

TABLE 6. Aquatic Ecosystem Restoration

				FY 2014	
	FY 2011	FY 2012	FY 2013	Target	Actual
Expenditures in millions of dollars	$496	$581	$479	$410	$447
Acres of habitat restored, created, improved, or protected (annual)	12,200	1,221	3,400	21,950	4,098

REGULATORY

Objective: Reduce adverse impacts to the Nation's wetlands and waterways through an effective, transparent, and efficient Regulatory process.

Funding History: The first row of Table 7 displays expenditures for the Regulatory business line.

Performance Indicators: Table 7 displays measures that are performance indicators in determining progress in meeting this objective.

General permit decisions: The percentage of general permit application decisions made within 60 days after receipt of a complete application.

Performance Results

Performance on both measures exceeded the targets. Although Districts continue to evaluate applications using the most streamlined permit reviews possible, standard permit reviews are increasing in complexity, with additional coordination required on many of these applications. These two factors have resulted in a decrease in performance as compared to previous years.

TABLE 7. Regulatory

				FY 2014	
	FY 2011	FY 2012	FY 2013	Target	Actual
Expenditures in millions of dollars	$196	$191	$184	$200	$185
Percentage of general permit application decisions made within 60 days	91%	89%	89%	75%	86%

ENVIRONMENTAL REMEDIATION (FORMERLY UTILIZED SITES REMEDIAL ACTION PROGRAM)

Objectives:

- Clean up radioactive waste sites

Funding History: The first row of Table 8 displays expenditures for environmental remediation under FUSRAP.

Performance Indicators: The measures listed in Table 8 serve as indicators to help USACE-CW personnel determine progress in meeting this objective.

Individual properties returned to beneficial use: The number of properties released for general use following remediation.

Performance Results

This business line uses the Monte Carlo method for cost and schedule risk analysis, a methodology that continues to improve the USACE-CW performance and ability to repair past environmental damage. The Monte Carlo method uses a series of random samples taken from a range of variables that can affect cost and schedule, in order to create a cost and schedule forecast with a definable level of certainty (or uncertainty).

In FY 2014, FUSRAP met all of its performance targets. Funds were used to continue radiological remedial activities at the Maywood site in New Jersey; the Shallow Land Disposal Area in Pennsylvania; properties in the vicinity of the St. Louis Airport in Missouri; the Iowa Army Ammunition Plant; the Hazelwood Interim Storage/Latty Avenue; the St. Louis Downtown Sites in St. Louis, Missouri; and Sylvania-Corning site, New York. A site-wide record of decision was signed for the St. Louis Downtown Site Inaccessible Soils operable unit in Missouri. Approximately 95,000 cubic yards of contaminated material was removed. Of this amount, 62,000 cubic yards was from the Maywood Site under the new prime contract awarded this year. Ten (148 cumulative) properties located in St. Louis, Missouri were returned to beneficial use. Remedial Investigation activities continued at all other FUSRAP sites.

TABLE 8. Formerly Used Sites Remedial Action Program

				FY 2014	
	FY 2011	FY 2012	FY 2013	Target	Actual
Expenditures in millions of dollars	$181	$137	$93	$103	$102
Individual properties returned to beneficial use[1]	18	11	17	9	10

Note 1: Prior year publications this measure was reported as a cumulative figure; in FY 2013 the measure was reformatted to show only actual annual results.

ENVIRONMENTAL STEWARDSHIP

Objectives:

- Manage, conserve, and preserve natural resources at USACE-CW projects

Funding History: The first row of Table 9 reflects expenditures for environmental stewardship.

Performance Indicators: Table 9 displays representative performance indicator results and targets for the year.

USACE-CW fee-owned and/or administered lands and waters that have achieved desired natural resource conditions: This measure tracks land and water acreage, which through protection and management meets the desired conditions outlined in management or work plans which fall into categories of sustainable, transitioning or degraded. Condition classifications are annually updated for each vegetation type of USACE-CW fee owned property.

Caspian Tern adults with chicks. (Photo by Lorraine Margeson)

Desired conditions include both sustainable and transitioning where natural resources objectives are met and environmental impacts are minimized. The performance is calculated with a numerator representing lands and waters meeting a sustainable or transitioning condition over the denominator of total lands and waters with a known condition. As lands and waters fall into a degraded condition, the acreage drops out of the numerator and lowers performance. Improving degraded lands and waters results in an increase in the numerator and a higher net performance.

Performance Results

Under the healthy and sustainable performance measure, the basic protection of land and water resources is expected to continue to remain relatively flat. Threats from invasive species, exotic pests, development, and population growth, combined with the increase in request for use of USACE-CW lands, may pose challenges to resource health across USACE-CW projects. Funding will continue to be placed as the highest priority to sustain the most critical habitat and ecosystem function while other critical habitat conditions may become further degraded.

The number of master plans updated in accordance with current regulations continues to increase. The master plans enable USACE-CW to adequately plan for and adjust to increasing pressures by rising population growth and land use demands. The performance trend is expected to continue to increase in future years.

TABLE 9. Environmental Stewardship

	FY 2011	FY 2012	FY 2013	FY 2014 Target	FY 2014 Actual
Expenditures in millions of dollars	$191	$173	$162	$116	$181
Percent of USACE-CW fee-owned and/or administered lands and waters that have achieved desired natural resource conditions	Note 1			85%	86%

Note 1: FY 2014 is the first year of reporting on this measure.

HYDROPOWER

Objective: Provide reliable, renewable, hydropower to the Nation

Funding History: The first row of Table 10 indicates capital improvements and O&M expenditures for the Hydropower business line over the past three-year period. This data is only for 54 of the 75 power plants owned and operated by USACE-CW. The 21 plants located in the Pacific Northwest are directly funded by the Bonneville Power Administration and are not included in these measures.

Performance Indicators: Table 10 displays representative performance indicator results and targets for the year.

Peak unit availability: Peak unit availability measures performance reliability, it is the percentage of time during critical peak demand periods that hydroelectric generating units are available to the Power Marketing Administration (PMA) interconnected system.

Percentage of time units are out of service due to unplanned outage: This measure tracks the percentage of time hydropower generating units are in an unscheduled or unplanned outage status. The lower the forced outage rate, the more reliable and less expensive the electrical power provided to the consumer.

Performance Results

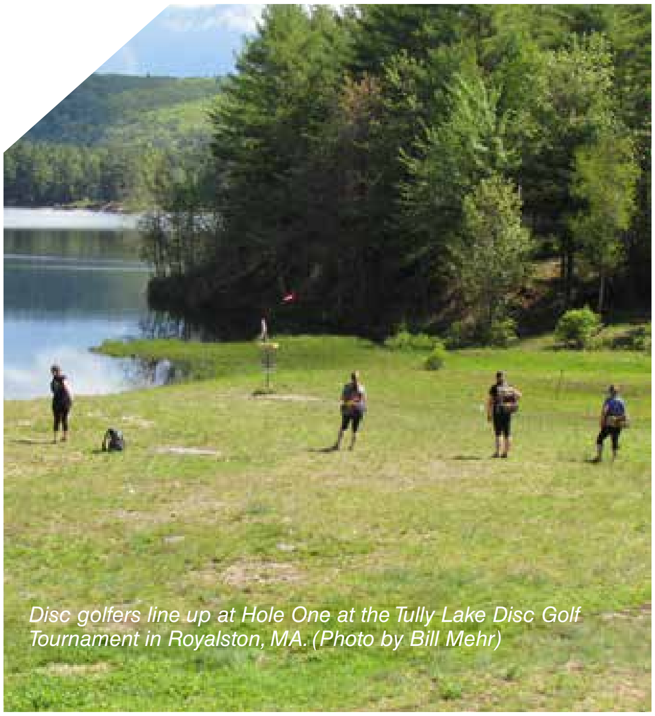
Appropriated funds were used to accomplish critical routine operation and maintenance and some non-routine maintenance at 54 of the 75 USACE-CW hydroelectric facilities, along with some capital work. Additional capital work and other non-routine maintenance work was accomplished through the implementation of agreements and associated sub-agreements with the regional Department of Energy PMAs and their preference customers. These amounts are not included in the totals in Table 10.

During FY 2014 the USACE-CW signed seven new sub-agreements and modifications to two existing sub-agreements resulting in an additional $65 million for non-routine work at USACE-CW power plants outside of the Pacific Northwest. FY 2014 appropriations also advanced two major rehabilitations – Garrison Dam and Power Plant, ND and Ozark-Jeta Taylor Lock and Dam, AR – to completion.

Compared to the previous year, there was an increase in the amount of time hydropower generating units were actually available to produce power during peak demand periods. This increase resulted from a decrease in scheduled equipment outages. The USACE-CW standard for peak availability is 95%. Table 10 shows FY 2014 business line performance for peak availability to be approximately seven percentage points below the USACE-CW standard. The forced outage rate continues to increase over the FY 2012. In addition to these unforeseen outages, other plants experienced generator coil, transformer bus, and trash rack failures.

TABLE 10. Hydropower

	FY 2011	FY 2012	FY 2013	FY 2014 Target	FY 2014 Actual
Expenditures in millions of dollars	$349	$395	$280	$223	$261
Percentage of time available during periods of peak demand	89.33%	88.18%	85.75%	86.3%	87.89%
Percentage of time units are out of service due to unplanned outages	4.4%	4.22%	5.85%	4%	7.07%



Disc golfers line up at Hole One at the Tully Lake Disc Golf Tournament in Royalston, MA. (Photo by Bill Mehr)

RECREATION

Objectives:

- Provide opportunities for quality outdoor public recreation

Funding History: The first row of Table 11 shows the expenditures for the Recreation business line.

Performance Indicators: The measures displayed in Table 11 describe the value the Recreation business line provides to the Nation. These indicators are explained below.

Project Site Area (PSA) Compliance: This measure tracks the quality of the recreation program delivered in light of fiscal realities and responsiveness to changing needs. Results will be used to guide decision making in focusing resources to provide amenities, services and opportunities where they provide the greatest qualitative and quantitative benefits.

Performance Results

The USACE-CW is committed to ensuring that all recreation areas provide visitors a level of service that will enable a secure, safe, and quality experience. Each project maintains multiple parks and multiple areas (campgrounds, picnic sites, boat launches) within each recreation area. The USACE-CW continued a systematic, national review of more than 2,200 recreation areas to determine where changes could be made in management and operations of facilities to respond to changing economic, financial, and operational demands. Changes implemented included reductions in services and maintenance levels, hours of operations, and releasing recreation areas from USACE-CW management and control, either by assignment to an outside interest or by closure. Available funding was directed toward providing necessary maintenance of grounds and sanitary facilities, protection of project assets and public property, security and visitor safety, and managing visitation.

TABLE 11. Recreation

				FY 2014	
	FY 2011	FY 2012	FY 2013	Target	Actual
Expenditures in millions of dollars	$422	$315	$308	$264	$271
PSA Compliance with facility condition standards	Note 2		87%	88%	Note 1
PSA Compliance with efficiency standards			66%	67%	Note 1
PSA Compliance with health and safety standards			54%	55%	Note 1

Note 1: FY 2014 figures are estimates; actual results will be available in December 2014.

Note 2: This measure is new in FY 2014.

WATER STORAGE FOR WATER SUPPLY

Objective: Provide water supply storage in partnership with state and local interests

Funding History: Expenditures for water supply storage are provided in the first row of Table 12.

Performance Indicators: To assist in gauging progress, the USACE-CW uses measures relating to the acre-feet of water stored and cost-recovery measures. These are shown in Table 12.

Acre-feet under contract: This measure tracks the percentage of the acre-feet of water supply storage space under contract with state and local interests for present and future use, compared to the acre-feet of space available for water supply. An acre-foot is the volume of water that will cover an area of one acre to a depth of one foot.

Investment costs recovered versus the total investment costs available for recovery: This measure tracks progress in recovering investment costs. The USACE-CW seeks proportional reimbursement of capital costs for that portion of the reservoir allocated for water supply. The cost available for recovery is the total estimated capital cost of water supply allocations. In this context, the capital costs are typically the costs to construct the reservoir.

Performance Results

FY 2014 further realized efforts to evaluate water storage reallocation for water supply needs to fulfill requests from non-federal entities. Building on efforts in the previous two fiscal years, in FY 2014, 10 reallocation studies were initiated, of which two were completed, for a total of $3 million. These included the study of the six Missouri main stem reservoirs; J. Percy Priest, TN; Cumberland Lake, KY; Wolf Creek Dam, KY; R D Bailey Lake, WV; Hartwell Lake, GA & SC; Beaver Lake, AR; Greers Ferry Dam and Lake, AR; Willamette River Basin Review, OR (Coast Fork); and Sulphur River Basin, TX. Completion of these studies will facilitate reallocations of storage which provide much needed storage to the non-federal entities and allow recovered waters supply costs to be returned to the U.S. Treasury.

In addition, $32.6 million funded construction activities associated with non-traditional water supply projects at Grand Prairie, Arkansas and Bayou Metro, Arkansas. The remainder of the current funding level provides only the minimum amount necessary to continue the operation and maintenance of the water supply function.

Development and quality control of the water supply and irrigation module of the Operations and Maintenance Business Information Link (OMBIL) continued during the year. This module is providing (1) additional data to help our districts in the management of their water supply program, (2) more tools for project oversight at the Headquarters level, and (3) instant response to inquiries from Army and congressional interests as well as from our state and local sponsors. The data validation effort in conjunction with the migration of the OMBIL reports to the Enterprise Data Warehouse is nearly finished.

TABLE 12. Water Storage for Water Supply

				FY 2014	
	FY 2011	FY 2012	FY 2013	Target	Actual
Expenditures in millions of dollars	$7	$6	$10	$45[1]	$37[1]
Percentage of available acre-feet under contract	95.9%	94.9%	95.6%	95.8%	95.7%
Percentage of capital cost recovered	56.0%	55.3%	56.3%	58%	57.7%

Note 1: Includes funding for non-traditional water supply projects at Grand Prairie and Bayou Metro.

POSSIBLE FUTURE EFFECTS OF EXISTING CONDITIONS

The USACE-CW includes a large inventory of water resources infrastructure. In an effort to manage the risk associated with that inventory, the USACE-CW utilizes a risk-based approach to managing those assets that is based on the condition of each project component and the consequence of failure of that component. Expenditure of operation and maintenance dollars is guided by that information.

The infrastructure that the USACE-CW helps to maintain includes dams, levees, coastal harbors and channels, inland waterways, locks, and hydropower plants with generating units. The USACE-CW constructed much of this infrastructure in the first half of the twentieth century. Some of our infrastructure is experiencing various stages of degradation and disrepair. Almost 60% of our locks are at least 50 years old. Almost half of our dams are more than 50 years old. However, we have rehabilitated many of the components of these locks and dams, hydropower facilities and other water resource infrastructure since then. All structures age over time. With proper maintenance and periodic rehabilitation, we are attempting to extend the effective lifetime of the

facilities owned or operated or on behalf of, the Corps of Engineers.

Flood Risk Management

The Flood Risk Management business line reduces flood risk to lives and property from inland and coastal flooding.

Dams: Approximately 46% of the dams managed by USACE-CW are classified as DSAC I, II, or III and may require additional study and/or modification. The USACE-CW implements interim risk reduction measures to reduce short term risk on dam safety projects.

Levees: The USACE-CW continues to implement its Levee Safety Initiative, which began in FY 2012 and includes inspections and assessments of the levee systems within the USACE-CW levee safety program. Approximately 2,500 levee systems are currently included within the USACE-CW Levee Safety Program.

Navigation

Today, approximately 20% of the gross domestic product of the U.S. is generated by foreign trade and approximately 95% of that trade is moved by water. The value of foreign tonnage is over $900 billion. Current forecasts predict that maritime trade will double in the next 20 years.

The USACE-CW continues to be successful in providing significant navigation benefits to the nation; however, it faces considerable challenges in its efforts to maintain the reliability of the inland waterways and coastal ports. Many of the locks and dams on the inland waterways require increased maintenance or will require rehabilitation to keep them functioning. For coastal ports, there has been a significant increase in dredging costs in recent years, which corresponds to the near doubling of fuel purchasing costs and significant increases in steel and labor costs. Also, many of the channel-deepening projects completed over the past few years require additional maintenance dredging. In addition, new environmental requirements and the construction of new, more distant dredged material placement sites have increased the costs of channel dredging. Although other factors may limit or control channel availability, the ability to maintain an acceptable channel width and depth through dredging operations has, by far, the greatest impact.

Construction of the cofferdam at Omega Pond as part of the Ten Mile River Ecosystem Restoration project, East Providence, RI. (Photo by Larry Oliver)

Environment: Aquatic Ecosystem Restoration

The goal of aquatic ecosystem restoration is to restore aquatic habitat - whose structure, function, and dynamic processes have become degraded - to a more natural condition. To achieve its objectives, the USACE-CW designs and constructs cost-effective projects that modify hydrologic and geomorphic characteristics.

The need for aquatic ecosystem restoration is great; however, the challenge is to strike a sustainable balance between the often-conflicting demands for funding and the use of water resources. Climate change is likely to make this balancing act even more difficult in the future. The White House Committee on Environment, Natural Resources and Sustainability-Subcommittee on Ecological Systems, in response to the report of the President's Council of Advisors on Science and Technology on Sustaining Environmental Capital, recently formed a Biodiversity and Ecosystem Services Trends Community of Practice to work together on projects and to ultimately determine how ecosystem services can be applied nationwide.

ANALYSIS OF FINANCIAL STATEMENTS

USACE-CW prepares annual Civil Works financial statements in conformity with Generally Accepted Accounting Principles prescribed by the Federal Accounting Standards Advisory Board and the formats prescribed by the Office of Management and Budget (OMB). The USACE-CW financial statements are subject to an independent audit to provide reasonable assurance that they are free from material misstatements. USACE-CW management is responsible for the integrity and objectivity of the financial information presented in these financial statements.

The USACE-CW Consolidated Balance Sheets, Consolidated Statements of Net Cost, Consolidated Statements of Changes in Net Position, and Combined Statements of Budgetary Resources have been prepared to report the financial position and results of operations of the USACE-CW, pursuant to the requirements of the Chief Financial Officers (CFO) Act of 1990 and the Government Management Reform Act of 1994. The following sections provide a brief description of the nature of each financial statement and significant fluctuations from FY 2013 to FY 2014. The charts presented in this analysis are "in millions" unless otherwise noted.

Consolidated Balance Sheet

The USACE-CW Consolidated Balance Sheet presents the amounts of future economic benefits owned or managed by USACE-CW (assets) against the amounts owed (liabilities) and amounts that comprise the difference (net position).

Figure 3 shows the USACE-CW Assets Comparison as of September 30, 2014 and 2013. Total assets amounted to $57,796 million in FY 2014 and $58,152 million in FY 2013, a 0.6% decrease. The decrease is mainly attributed to a decrease in the Fund Balance with the Treasury because of supplemental funds that were received in FY 2013 and not in FY 2014.

FIGURE 3. Assets Comparison

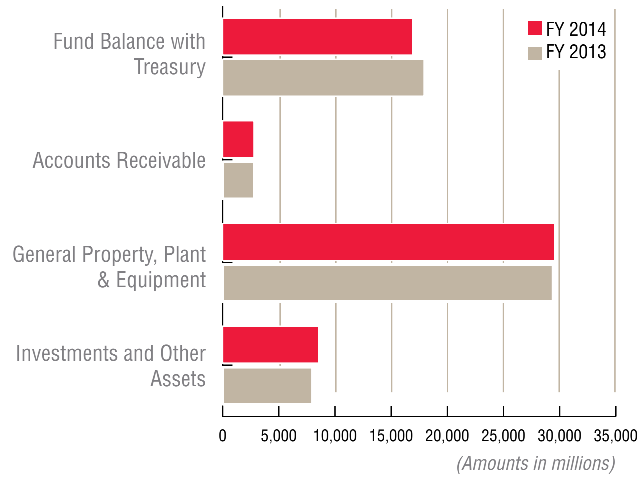
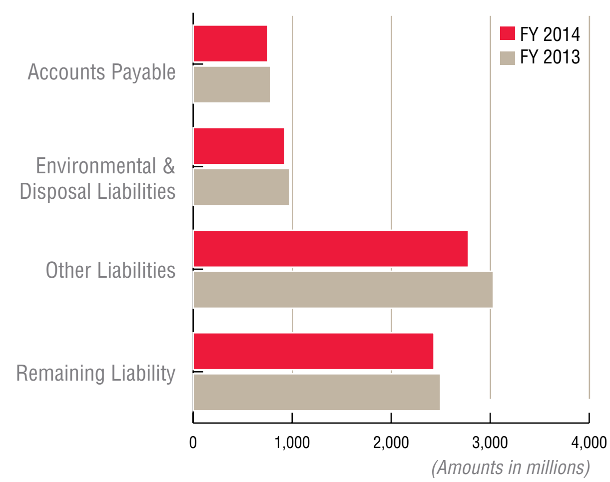


Figure 4 shows the USACE-CW Liabilities Comparison as of September 30, 2014 and 2013. Total liabilities amounted to $6,890 million in FY 2014 and $7,287 million in FY 2013, a 5.5% decrease.

FIGURE 4. Liabilities Comparison



Consolidated Statement of Net Cost

The major elements of the Consolidated Statements of Net Cost include program costs totaling $9,033 million in FY 2014 and $9,963 million in FY 2013, and earned revenues amounting to $2,427 million in FY 2014 and $2,911 million in FY 2013. Both elements are comprised of both intragovernmental and public costs. Total net costs of operations decreased by $446 million, or 6.3%, which is attributed to the two factors below.

Program costs decreased by $930 million, or 9.3%. Nonfederal costs decreased by 13% and is mainly attributed to decreases in flood damage, flood prevention, and channel dredging for navigation improvements in FY 2014.

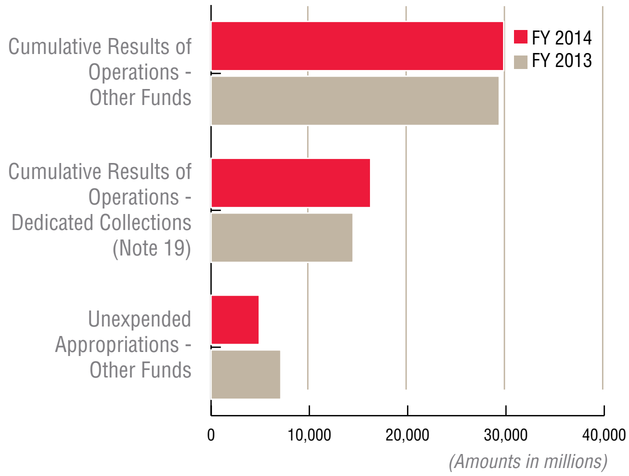
Earned revenue decreased $484 million, or 16.6%. Intragovernmental Earned Revenue decreased due to reductions with the Department of Homeland Security, particularly Hurricane Sandy and border patrol station projects. There was also a decrease in revenue with the Department of Veterans Affairs, Department of the Army, and the National Aeronautics and Space Administration (NASA).

Consolidated Statement of Changes in Net Position

The Consolidated Statements of Changes in Net Position presents those accounting items that caused the net position section of the balance sheet to change from the beginning to the end of the reporting period. Various financing sources increase net position. These financing sources include appropriations received and non-exchange revenues, such as donations and forfeitures of property and imputed financing from costs absorbed by other federal agencies. USACE-CW net cost of operations and appropriations used serve to reduce net position.

Figure 5 shows the three components of the USACE-CW net position for FY 2014 and FY 2013. Overall, net position increased in FY 2014 compared to FY 2013 due to increases in "cumulative results of operations – other funds" and "cumulative results of operations – dedicated collections."

FIGURE 5. Net Position

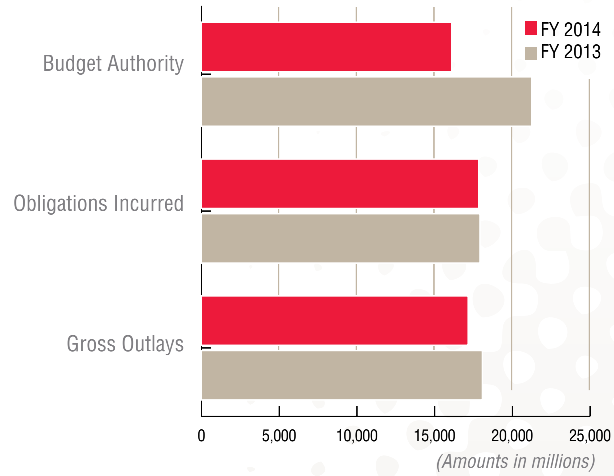


Combined Statement of Budgetary Resources

The Combined Statements of Budgetary Resources provide information on the budgetary resources that were made available to the USACE-CW as of September 30, 2014 and 2013, and the status of those budgetary resources. Budget authority is the authority provided to the USACE-CW by law to enter into obligations that will result in outlays of federal funds. Obligations incurred results from an order placed, contract awarded, or similar transaction, which will require payments during the same or a future period. Gross outlays reflect the actual cash disbursed by the Department of the Treasury for USACE-CW obligations.

Figure 6 shows a comparison of budget authority, obligations incurred and gross outlays in FY 2014 and FY 2013. The reported total USACE-CW budget authority was $16,102 million and $21,254 million as of September 30, 2014 and 2013, respectively. Obligations incurred amounted to $17,839 million as of September 30, 2014, $17,917 million as of September 30, 2013. Gross outlays amounted to $17,152 million as of September 30, 2014, $18,063 million as of September 30, 2013. The decrease in budget authority is due to less Disaster Relief funds in FY 2014. Additionally, a decrease in offsetting collections contributed to decreases in both budget authority and gross outlays.

FIGURE 6. Budgetary Resources



STATEMENT OF ASSURANCE

The management of the United States Army Corps of Engineers (USACE) Civil Works (CW) is responsible for establishing and maintaining effective internal controls and financial management systems that meet the objectives of the *Federal Managers' Financial Integrity Act of 1982* (FMFIA). USACE-CW conducted its assessment of the effectiveness of internal control over operations and compliance with the applicable laws and regulations in accordance with Office of Management and Budget (OMB) Circular Number (No.) A-123, *Management's Responsibility for Internal Control*. Based on the results of this evaluation, USACE-CW can provide reasonable assurance that internal control over the effectiveness and efficiency of operations and compliance with applicable laws and regulations met the objectives of FMFIA and no material weaknesses were found in the design or operation of the internal controls as of September 30, 2014.

USACE-CW conducted its assessment of internal control over financial reporting in accordance with Appendix A of OMB Circular No. A-123. Based on the results of this assessment, USACE-CW can provide reasonable assurance that its internal control over financial reporting as of September 30, 2014 was operating effectively and no material weaknesses were found in the design or operation of the internal control over financial reporting.

The *Federal Financial Management Improvement Act of 1996* (FFMIA) requires agencies to implement and maintain financial management systems that are substantially in compliance with federal financial management systems requirements, federal accounting standards promulgated by the Federal Accounting Standards Advisory Board (FASAB), and the U.S. Standard General Ledger (USSGL) at the transaction level. In addition, OMB Circular No. A-123 Appendix D requires agencies to implement and maintain financial management systems that are substantially in compliance with federal financial management systems requirements, federal accounting standards, and the USSGL. Evaluation results also indicated that USACE-CW financial management systems were found to substantially comply with FFMIA and OMB Circular No. A-123 Appendix D as of September 30, 2014.

Steven L. Stockton
Director of Civil Works
November 4, 2014

A snowy owl is visiting Long Branch Lake near Long Branch Dam. (Photo by Irvin Ward)

ANALYSIS OF SYSTEMS, CONTROLS, AND LEGAL COMPLIANCE

Federal Manager's Financial Integrity Act

The management control objectives under the *Federal Managers' Financial Integrity Act of 1982* (FMFIA) are to reasonably ensure that:

- Programs achieve their intended results efficiently and effectively
- Resources are used consistent with overall mission
- Programs and resources are free from waste, fraud, and mismanagement
- All applicable laws and regulations are followed
- Controls are sufficient to minimize any improper or erroneous payments
- System security is in substantial compliance with all relevant requirements
- Resources are used in accordance with the organizational mission
- Financial management systems are in compliance with federal financial systems standards
- Timely, accurate, and reliable data are maintained and used for decision making at all levels

The USACE-CW internal control program is designed to ensure full compliance with the goals, objectives, and requirements of FMFIA and the OMB Circulars Nos. A-123, *Management's Responsibility for Internal Control*, and A-136, *Financial Reporting Requirements*. The USACE-CW holds managers accountable for the performance, productivity, operations, and integrity of their programs through the use of internal controls. The USACE-CW undertakes a combination of actions to ensure there is a reasonable level of assurance that internal controls are in place and operating effectively. Those actions consist of a combination of inspections, audits, investigations, and management controls reviews conducted throughout the year. The USACE-CW also has a strong network of management control oversight committees to include the National Management Board, Regional Management Boards, and the Quarterly Review Boards. The Quality Management System, another management control mechanism, allows the USACE-CW to standardize business processes and ensure appropriate internal controls are built into those processes. Many of the USACE-CW management control evaluations are integrated into periodic management review processes such as the Consolidated Management Reviews, Directorate Management Reviews, Program Management Reviews, and through the execution of internal audits. The USACE-CW evaluation for FY 2014 identified no material weaknesses in the design or operation of its management and financial system internal controls.

USACE-CW Funds Distribution Module (FDM) will integrate management of all USACE-CW appropriations in one enterprise system, improving the visibility and transparency of the funds receipt and execution. FDM will capture the Standard Financial Information Structure (SFIS) and Common Government-wide Accounting Classification Structure (CGAC) data at the time of the receipt of the apportionment and warrant documents and will perpetuate this data throughout the funding life cycle. In addition, the data will be timely, accurate and reliable due to real time data entry and edits validated against standard Enterprise data manger tables. All laws and regulations governing proper use of funds and reprogramming thresholds will be controlled in FDM. CEFMS is Common Access Card (CAC) enabled and complies with Army and DoD security standards ensuring that FDM access is appropriately controlled and electronic signatures are generated for all actions from receipt to disbursement of funds. Additionally, FDM will have functionality for automated management of roles and permissions which will ensure adequate internal controls are implemented.

OMB Circular No. A-123 Appendix A

The USACE-CW conducted an assessment of the effectiveness of its internal controls over financial reporting in compliance with OMB Circular No. A-123, Appendix A, *Internal Control over Financial Reporting* (ICOFR) and related DoD guidance. The USACE Executive Senior Assessment Team (ESAT), established in FY 2008, is chaired by the Deputy Commanding General

and comprised of functional area Senior Executives who provide expert leadership and direction over the CFO Act financial statement audit. USACE-CW evaluation for FY 2014 did not identify any material weaknesses as of or subsequent to June 30, 2014.

Federal Financial Management Improvement Act of 1996

The *Federal Financial Management Improvement Act* (FFMIA) *of 1996* stipulates that government agencies "…implement and maintain financial management systems that comply substantially with federal financial management systems requirements, applicable federal accounting standards, and the United States Standard General Ledger (USSGL) at the transactional level." FFMIA also mandates that remediation plans be developed for any agency that is unable to report substantial compliance. Substantial compliance is achieved when an agency's financial management system(s) routinely provide reliable and timely financial information for managing day to day operations as well as produce reliable financial statements, maintain effective internal control, and comply with legal and regulatory requirements.

USACE-CW's financial management framework consists primarily of CEFMS. CEFMS is a comprehensive and integrated financial management system which processes all financial transactions for all USACE-CW missions and programs. CEFMS maintains an electronic record of the financial transactions and is in compliance with the USSGL. USACE-CW also utilizes CEFMS to maintain funds control and track the execution of all direct and reimbursable funded projects. Adequate internal control mechanisms are critical in maintaining the integrity of transactional data. To ensure proper separation of duties, CEFMS includes a robust electronic signature process, utilizing public key infrastructure (PKI), and has a role-based security feature to reinforce its internal controls. CEFMS provides reliable and timely financial information for managing its financial operations. Internal controls are embedded throughout CEFMS to ensure data integrity and to prevent fraud, waste, and abuse through the segregation of duties using role-based controls.

The walled channel portion of the Turkey Creek Project is a 90-foot wide concrete lined channel. (Photo by Scott P. Mensing)

CEFMS is the primary reason why USACE has received unmodified audit opinions on its Civil Works financial statements for the past seven consecutive fiscal years.

USACE-CW has evaluated its financial management systems and has determined that they substantially comply with the requirements of the FFMIA of 1996 (Section 801 of title 31, USC), the OMB Circular No. A-123, and the DoD Financial Management Regulations, Volume 1, Chapter 3.

Improper Payments Information Act Reporting Details

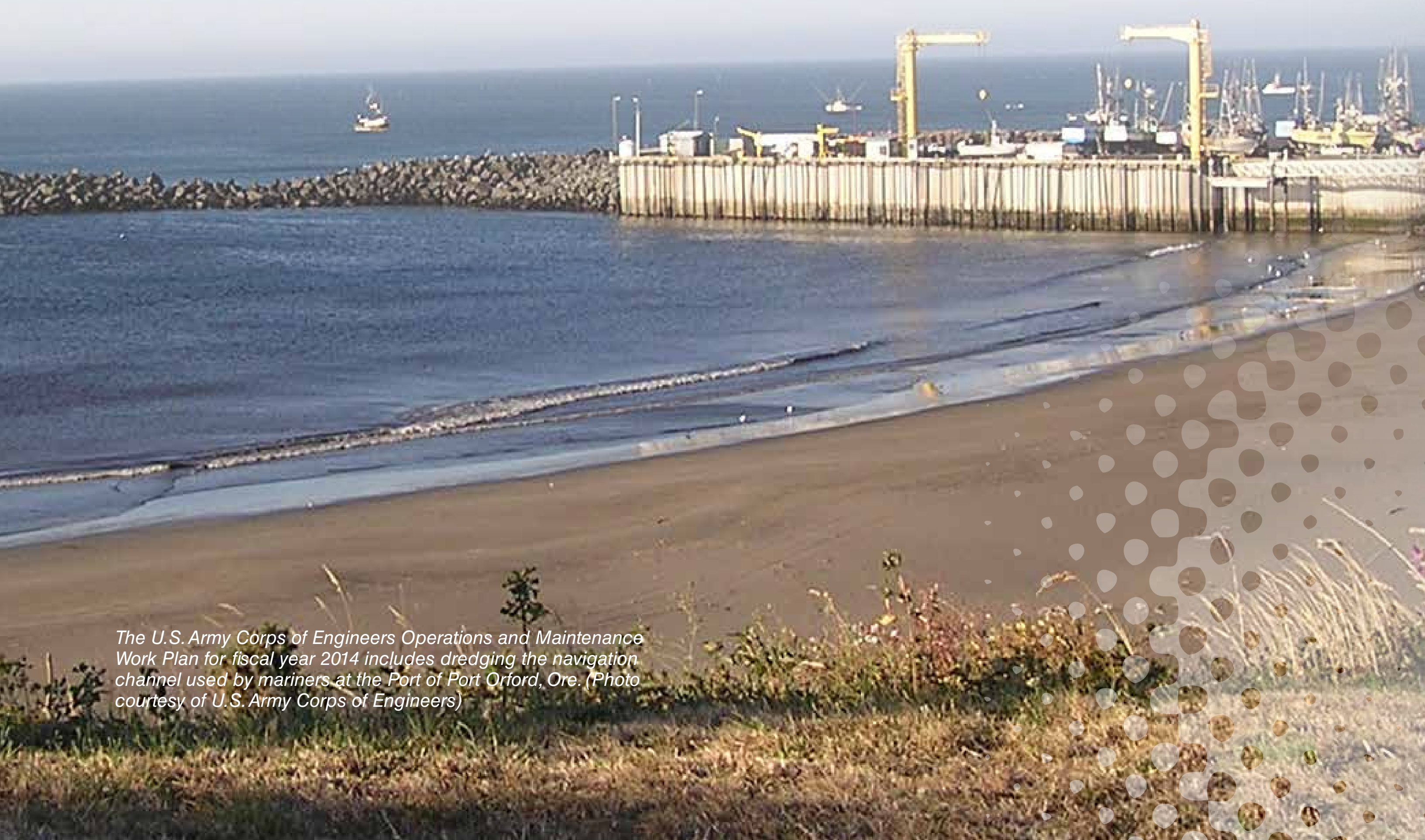
USACE-CW recognizes the importance of maintaining sufficient internal controls to ensure proper payments. The Improper Payments Information Act of 2002 (IPIA; Pub. L. 107-300), as amended by the Improper Payments Elimination and Recovery Act of 2010 (IPERA; Pub. L. 111-204), requires agencies to annually report information on improper payments to the President and Congress. The IPIA, as amended, and OMB implementing guidance, OMB Circular A-123, Appendix C, *Requirements for Effective Measurement and Remediation of Improper Payments*, require agencies to review all programs and activities they administer to identify those that are susceptible to significant improper payments. OMB defines significant improper payments as gross annual improper payments (i.e. the total amount of overpayments plus underpayments) in a program exceeding (1) both 1.5% of program outlays and $10 million of all program or activity payments made during the fiscal year reported or (2) $100 million, regardless of the improper payment percentage of total program outlays.

In accordance with the IPIA, as amended, and OMB implementing guidance, USACE-CW assessed its programs and activities for susceptibility to significant improper payments. Based on the results of the risk assessment for the period ended September 30, 2014, USACE-CW concluded there were no programs susceptible to significant improper payments.

Summary

Although USACE-CW has no material weaknesses to report as a result of the above internal control evaluations, management remains committed to addressing the significant deficiencies identified as a result of audits, evaluations and assessments of controls in its financial management systems and its business processes, to ensure existence of effective internal controls, systems integration, and timely and reliable financial and performance data for reporting purposes. The table below shows the number of material weaknesses, significant deficiencies, and legal requirements not in compliance, as a result of the independent audits of Civil Works financial statements from FY 2010 through FY 2014:

Fiscal Year End	Number of Material Weaknesses	Number of Significant Deficiencies	Number of Legal Requirements Not in Compliance
2010	4	2	3
2011	1	3	3
2012	0	3	3
2013	0	3	2
2014	0	3	2



The U.S. Army Corps of Engineers Operations and Maintenance Work Plan for fiscal year 2014 includes dredging the navigation channel used by mariners at the Port of Port Orford, Ore. (Photo courtesy of U.S. Army Corps of Engineers)

LIMITATIONS

Limitations of the Financial Statements

The financial statements have been prepared to report the financial position and results of operations for the entity, pursuant to the requirements of Title 31, United States Code, Section 3515(b).

While the statements have been prepared from the books and records of the entity, in accordance with the formats prescribed by the Office of Management and Budget, the statements are in addition to the financial reports used to monitor and control budgetary resources which are prepared from the same books and records.

The statements should be read with the realization that they are for a component of the United States Government, a sovereign entity.

CONSOLIDATED BALANCE SHEETS

As of September 30, 2014 and 2013 (in thousands)

		2014		2013
ASSETS (Note 2)				
Intragovernmental:				
Fund Balance with Treasury (Note 3)	$	16,909,507	$	17,927,754
Investments (Note 4)		8,526,845		7,998,914
Accounts Receivable (Note 5)		607,980		563,870
Total Intragovernmental Assets	$	26,044,332	$	26,490,538
Cash and Other Monetary Assets (Note 6)		700		727
Accounts Receivable, Net (Note 5)		2,184,417		2,250,094
Operating Materials and Supplies (Note 7)		15,417		7,798
General Property, Plant and Equipment, Net (Note 8)		29,551,062		29,402,834
Other Assets		59		44
TOTAL ASSETS	$	57,795,987	$	58,152,035
Stewardship PP&E (Note 9)				
LIABILITIES (Note 10)				
Intragovernmental:				
Accounts Payable	$	54,982	$	46,911
Debt (Note 11)		1,491		1,721
Due to Treasury - General Fund (Note 13)		2,169,177		2,227,470
Other Liabilities (Notes 13 & 14)		782,735		631,707
Total Intragovernmental Liabilities	$	3,008,385	$	2,907,809
Accounts Payable - Public		698,088		734,245
Federal Employee and Veterans' Benefits		261,089		268,952
Environmental and Disposal Liabilities (Note 12)		925,704		977,023
Other Liabilities (Notes 13 & 14)		1,996,538		2,399,257
TOTAL LIABILITIES	$	6,889,804	$	7,287,286
Contingencies (Note 14)				
NET POSITION				
Unexpended Appropriations - Other Funds	$	4,903,537	$	7,099,379
Cumulative Results of Operations - Dedicated Collections (Note 19)		16,233,262		14,445,950
Cumulative Results of Operations - Other Funds		29,769,384		29,319,420
TOTAL NET POSITION	$	50,906,183	$	50,864,749
TOTAL LIABILITIES AND NET POSITION	$	57,795,987	$	58,152,035

The accompanying notes are an integral part of these financial statements.

US Army Corps of Engineers - Civil Works

CONSOLIDATED STATEMENTS OF NET COST

For the years ended September 30, 2014 and 2013 (in thousands)

	2014	2013
Program Costs		
Gross Costs (Note 15)	$ 9,033,353	$ 9,963,341
Less: Earned Revenue	(2,426,953)	(2,910,901)
Net Cost of Operations	$ 6,606,400	$ 7,052,440

The accompanying notes are an integral part of these financial statements.

CONSOLIDATED STATEMENTS OF CHANGES IN NET POSITION

For the years ended September 30, 2014 and 2013 (in thousands)

	2014 Dedicated Collections	2014 Other	2014 Consolidated Total
CUMULATIVE RESULTS OF OPERATIONS			
Beginning Balances	$ 14,445,950	$ 29,319,420	$ 43,765,370
Budgetary Financing Sources:			
Appropriations used	-	6,534,148	6,534,148
Nonexchange revenue	1,723,620	3,209	1,726,829
Transfers-in/out without reimbursement	35,520	103,078	138,598
Other Financing Sources (Non-exchange):			
Donations and forfeitures of property	-	603	603
Transfers-in/out without reimbursement	-	128,981	128,981
Imputed financing from costs absorbed by others	4,179	310,338	314,517
Total Financing Sources	1,763,319	7,080,357	8,843,676
Net Cost of Operations	(23,993)	6,630,393	6,606,400
Net Change	1,787,312	449,964	2,237,276
Cumulative Results of Operations	$ 16,233,262	$ 29,769,384	$ 46,002,646
UNEXPENDED APPROPRIATIONS			
Beginning Balances	$ -	$ 7,099,379	$ 7,099,379
Budgetary Financing Sources:			
Appropriations received	-	4,338,306	4,338,306
Appropriations used	-	(6,534,148)	(6,534,148)
Total Budgetary Financing Sources	-	(2,195,842)	(2,195,842)
Unexpended Appropriations	-	4,903,537	4,903,537
Net Position	$ 16,233,262	$ 34,672,921	$ 50,906,183

The accompanying notes are an integral part of these financial statements.

US Army Corps of Engineers - Civil Works

CONSOLIDATED STATEMENTS OF CHANGES IN NET POSITION

For the years ended September 30, 2014 and 2013 (in thousands)

	2013 Dedicated Collections	2013 Other	2013 Consolidated Total
CUMULATIVE RESULTS OF OPERATIONS			
Beginning Balances	$ 12,710,452	$ 28,929,245	$ 41,639,697
Budgetary Financing Sources:			
Appropriations used	-	6,818,227	6,818,227
Nonexchange revenue	1,769,198	3,220	1,772,418
Transfers-in/out without reimbursement	46,465	96,308	142,773
Other Financing Sources (Non-exchange):			
Donations and forfeitures of property	-	2,462	2,462
Transfers-in/out without reimbursement	-	135,538	135,538
Imputed financing from costs absorbed by others	1,835	304,860	306,695
Total Financing Sources	1,817,498	7,360,615	9,178,113
Net Cost of Operations	82,000	6,970,440	7,052,440
Net Change	1,735,498	390,175	2,125,673
Cumulative Results of Operations	$ 14,445,950	$ 29,319,420	$ 43,765,370
UNEXPENDED APPROPRIATIONS			
Beginning Balances	$ -	$ 5,014,903	$ 5,014,903
Budgetary Financing Sources:			
Appropriations received	-	9,385,492	9,385,492
Other adjustments (rescissions, etc.)	-	(482,789)	(482,789)
Appropriations used	-	(6,818,227)	(6,818,227)
Total Budgetary Financing Sources	-	2,084,476	2,084,476
Unexpended Appropriations	-	7,099,379	7,099,379
Net Position	$ 14,445,950	$ 36,418,799	$ 50,864,749

The accompanying notes are an integral part of these financial statements.

COMBINED STATEMENT OF BUDGETARY RESOURCES

For the years ended September 30, 2014 and 2013 (in thousands)

	2014 Combined		2013 Combined	
Budgetary Resources				
Unobligated balance brought forward, October 1	$	12,361,777	$	8,610,077
Recoveries of prior year unpaid obligation		361,983		415,350
Other changes in unobligated balance		-		(32)
Unobligated balance from prior year budget authority, net		12,723,760		9,025,395
Appropriations (discretionary and mandatory)		5,910,272		10,431,745
Spending Authority from offsetting collections		10,191,949		10,821,836
Total Budgetary Resources	$	28,825,981	$	30,278,976
Status of Budgetary Resources:				
Obligations Incurred	$	17,838,591	$	17,917,199
Unobligated balance, end of year				
Apportioned		9,565,936		11,038,039
Exempt from Apportionment		1,413,783		1,319,517
Unapportioned		7,671		4,221
Unobligated balance brought forward, end of year		10,987,390		12,361,777
Total Budgetary Resources	$	28,825,981	$	30,278,976
Change in Obligated Balance:				
Unpaid obligations:				
Unpaid obligations, brought forward, October 1	$	7,814,025	$	8,374,732
Obligations incurred		17,838,591		17,917,199
Outlays (gross) (-)		(17,151,588)		(18,062,556)
Recoveries of prior year unpaid obligations (-)		(361,983)		(415,350)
Unpaid obligations, end of year		8,139,045		7,814,025
Uncollected payments:				
Uncollected payments, Federal sources, brought forward, October 1		(1,941,342)		(2,176,727)
Change in uncollected payments, Federal Sources (+ or -)		41,201		235,385
Uncollected customer payments, Federal sources, end of year (-)		(1,900,141)		(1,941,342)
Obligated balance, start of year (net)		5,872,683		6,198,005
Obligated balance, end of year	$	6,238,904	$	5,872,683
Budget Authority and Outlays, Net:				
Budget authority, gross (discretionary and mandatory)	$	16,102,221	$	21,253,581
Actual offsetting collections (discretionary and mandatory) (-)		(10,132,895)		(10,963,467)
Change in uncollected customer payments from Federal Sources (discretionary and mandatory) (+ or -)		41,201		235,385
Budget Authority, net (discretionary and mandatory)	$	6,010,527	$	10,525,499
Outlays, gross (discretionary and mandatory)		17,151,588		18,062,556
Actual offsetting collections (discretionary and mandatory) (-)		(10,132,895)		(10,963,467)
Outlays, net (discretionary and mandatory)		7,018,693		7,099,089
Distributed offsetting receipts		(496,296)		(806,706)
Agency Outlays, net (discretionary and mandatory)	$	6,522,397	$	6,292,383

The accompanying notes are an integral part of these financial statements.

NOTE 1. SIGNIFICANT ACCOUNTING POLICIES

1.A. Mission of the Reporting Entity

The primary mission of the United States (U.S.) Army Corps of Engineers - Civil Works Program (USACE) includes maintaining navigation channels, reducing flooding, assisting during natural disasters and other emergencies, and making waterways passable. USACE also supports the Department of Homeland Security in carrying out the National Response Plan. USACE's primary role in support of this plan is to provide emergency support in areas of public works and engineering. USACE responds to more than 30 presidential disaster declarations in a typical year, and its highly trained workforce is prepared to deal with both man-made and natural disasters.

1.B. Basis of Presentation and Accounting

These financial statements have been prepared to report the financial position and results of operations of USACE, as required by the Chief Financial Officers Act of 1990, expanded by the Government Management Reform Act of 1994. The financial statements have been prepared from the books and records of USACE in accordance with the U.S. generally accepted accounting principles (GAAP) for Federal entities and the formats prescribed by the Office of Management and Budget (OMB) Circular Number (No.) A-136, *Financial Reporting Requirements*. The accompanying financial statements account for all Civil Works resources for which USACE is responsible.

The accounting structure of Federal agencies is designed to reflect both accrual and budgetary accounting transactions. Under the accrual method of accounting, revenues are recognized when earned and expenses are recognized when incurred without regard to the receipt or payment of cash. The budgetary accounting principles, on the other hand, are designed to recognize the obligation of funds according to legal requirements, which in many cases is prior to the occurrence of an accrual-based transaction. The recognition of budgetary accounting transactions is essential for compliance with legal constraints and controls over the use of Federal funds.

USACE has presented comparative financial statements for the Consolidated Balance Sheet, Consolidated Statements of Net Cost and Changes in Net Position, and Combined Statement of Budgetary Resources, in accordance with OMB financial statement reporting guidelines.

USACE transactions are recorded on an accrual accounting basis as required by GAAP. USACE's financial management system meets all of the requirements for full accrual accounting.

USACE is not subject to federal, state or local income taxes. Accordingly, no provision for income taxes is recorded.

1.C. Fund Types

General funds are used for financial transactions funded by Congressional appropriations, including personnel, operation and maintenance, research and development, procurement, and construction accounts.

Revolving funds received funding to establish an initial corpus through an appropriation or a transfer of resources from existing appropriations or funds. The corpus finances operations and transactions that flow through the fund. The revolving fund finances the goods and services sold to customers on a reimbursable basis and maintains the corpus. Reimbursable receipts fund future operations and generally are available in their entirety for use without further congressional action.

Special funds are used to record government receipts reserved for a specific purpose.

Trust funds contain receipts and expenditures of funds held in trust by the government for use in carrying out specific purposes or programs in accordance with the terms of the donor, trust agreement, or statute.

Contributed funds are received from the public for construction of assets under local cost sharing agreements.

Most USACE trust, contributed, and special funds are designated as funds from dedicated collections. These funds are financed by specifically identified revenues, required by statute to be used for designated activities, benefits or purposes, and remain available over time. USACE is required to separately account for and report on the receipt, use and retention of revenues and other financing sources for dedicated collections.

Deposit funds are used to record amounts held temporarily until paid to the appropriate government or public entity. They are not USACE funds, and as such, are not available for USACE's operations. USACE is acting as an agent or a custodian for funds awaiting distribution.

Clearing accounts are used to record the amount of unprocessed intragovernmental payments and collections transmitted to USACE from other Federal agencies.

Receipt accounts are used to record amounts such as interest, land lease proceeds, fines and penalties that are deposited in the U.S. Treasury.

A summary of USACE accounts follows:

General Funds

96X3112	Mississippi River and Tributaries
96 3113	Mississippi River and Tributaries - Recovery Act (fiscal year)
96X3121	Investigations
96 3121	Investigations (fiscal year)
96X3122	Construction
96 3122	Construction (fiscal year)
96X3123	Operation and Maintenance
96 3123	Operation and Maintenance (fiscal year)
96X3124	Expenses
96 3124	Expenses (fiscal year)
96X3125	Flood Control and Coastal Emergencies
96 3125	Flood Control and Coastal Emergencies (fiscal year)
96X3126	Regulatory Program
96 3126	Regulatory Program (fiscal year)
96X3128	Washington Aqueduct Capital Improvements
96X3130	Formerly Utilized Sites Remedial Action Program
96X3132	Office of Assistant Secretary of the Army, Civil Works
96 3132	Office of Assistant Secretary of the Army, Civil Works (fiscal year)
96 3133	Investigations - Recovery Act (fiscal year)
96 3134	Construction – Recovery Act (fiscal year)
96 3135	Operation and Maintenance – Recovery Act (fiscal year)
96 3136	Regulatory Program – Recovery Act (fiscal year)
96 3137	Formerly Utilized Sites Remedial Action Program – Recovery Act (fiscal year)
96 3138	General Expenses – Recovery Act (fiscal year)
96X6094	Advances from the District of Columbia

Revolving Funds

96X4902	Revolving Fund

Special Funds

96X5007	Special Recreation Use Fees
96X5066	Hydraulic Mining in California, Debris

96X5090	Payments to States, Flood Control Act of 1954
96X5125	Maintenance and Operation of Dams and Other Improvements of Navigable Waters
96X5493	Fund for Nonfederal Use of Disposal Facilities
96 5493	Fund for Nonfederal Use of Disposal Facilities (fiscal year)

Trust Funds

96X8217	South Dakota Terrestrial Wildlife Habitat Restoration Trust Fund
96X8333	Coastal Wetlands Restoration Trust Fund
96X8861	Inland Waterways Trust Fund
96X8863	Harbor Maintenance Trust Fund

Trust Funds (Contributed)

96X8862	Rivers and Harbors Contributed and Advance Funds

Deposit Funds

96X6500	Advances Without Orders from Non-Federal Sources
96X6501	Small Escrow Amounts

Clearing Accounts

96F3875	Budget Clearing Account (suspense)
96F3880	Unavailable Check Cancellations and Overpayments (suspense)
96F3885	Undistributed Intragovernmental Payments

Receipt Accounts

96R0891	Miscellaneous Fees for Regulatory and Judicial Services, Not Otherwise Classified
96R1060	Forfeitures of Unclaimed Money and Property
96R1099	Fines, Penalties, and Forfeitures, Not Otherwise Classified
96R1299	Gifts to the United States, Not Otherwise Classified
96R1435	General Fund Proprietary Interest, Not Otherwise Classified
96R3220	General Fund Proprietary Receipts, Not Otherwise Classified, All Other
96R5007	Special Recreation Use Fees
96R5066	Hydraulic Mining in California
96R5090	Receipts from Leases of Lands Acquired for Flood Control, Navigation, and Allied Purposes
96R5125	Licenses under Federal Power Act, Improvements of Navigable Waters, Maintenance and Operation of Dams, etc.
96R5493	User Fees, Fund for Nonfederal Use of Disposal Facilities
96R8862	Contributions and Advances, Rivers and Harbors

1.D. Financing Sources

USACE receives Federal funding through the annual Energy and Water Development Appropriations Act. Funding also comes from nonfederal project sponsors who share in project costs according to formulas established by project authorization acts. A third source of funding comes through the Support for Others Program, which is conducted under reimbursable agreements with Federal agencies.

USACE receives its appropriations and funds as general, revolving, trust, special, and deposit funds. USACE uses these appropriations and funds to execute its mission and subsequently report on resource usage.

USACE received borrowing authority from the U.S. Treasury to finance capital improvements to the Washington Aqueduct.

USACE receives congressional appropriations as financing sources that expire annually, on a multi-year basis, or do not expire. When authorized by legislation, these appropriations are supplemented by revenues generated by sales of services. USACE recognizes revenue as a result of costs incurred for goods or services provided to other Federal agencies and the public. Full cost pricing is USACE's standard policy for goods or services provided as required by OMB Circular No. A-25, *User Charges*.

USACE records two types of revenue: exchange and non-exchange. Exchange revenue is the inflow of resources that USACE has earned by providing something of value to the public or another Federal entity at a price. The main sources of exchange revenue are customer orders (reimbursable agreements) and cost sharing revenue.

Customer orders are contracts where USACE provides services under a reimbursable agreement; the related revenue and accounts receivable are recorded simultaneously along with the costs and payables. For nonfederal entities, an advance payment is required and USACE records advances from others. USACE reduces the advances and recognizes revenue as services are provided.

Cost sharing revenue arises from agreements under which USACE constructs assets, the cost of which will be borne in part by another entity (sponsor). Throughout the life of a cost share project, USACE revenue is earned based on the sponsor's proportionate share of project costs incurred. Sponsors are generally required to provide funds in advance and USACE records deferred credits. USACE reduces the deferred credits and recognizes revenue at the time of the withdrawal for costs incurred.

Non-exchange revenue represents resources received by USACE when a good or service is not provided in exchange for that revenue. Non-exchange revenue generally consists of interest earned on investments from excise taxes and port fees, penalties, and donations.

1.E. Use of Estimates

The preparation of the financial statements in conformity with GAAP requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities and the disclosure of contingent liabilities as of the date of the financial statements and the reported amounts of revenues and expenses during the reporting period. Actual results could differ from estimates.

1.F. Recognition of Expenses

USACE recognizes expenses in the period incurred or consumed. USACE's expenditures for capital assets are recognized as operating expenses as the assets are depreciated or amortized.

1.G. Accounting for Intragovernmental Activities

USACE eliminates transactions within USACE Civil Works Program in these consolidated financial statements. Accounting standards require that an entity eliminate intraentity activity and balances from consolidated financial statements in order to prevent overstatement for business with itself.

Intragovernmental costs and revenues represent transactions made between two reporting entities within the Federal government. Costs and revenues with the public represent transactions made between the reporting entity and a nonfederal entity. The classification of revenue or cost as "intragovernmental" or "with the public" is defined on a transaction-by-transaction basis. The purpose of this classification is to enable the Federal government to prepare consolidated financial statements.

Generally, financing for the construction of USACE's facilities is obtained through appropriations. To the extent this financing ultimately may have been obtained through the issuance of public debt, interest costs have not been capitalized because the U.S. Treasury does not allocate such costs to USACE.

In accordance with Statement of Federal Financial Accounting Standard (SFFAS) No. 4, *Managerial Cost Accounting Concepts and Standards*, USACE recognizes imputed financing and cost for unreimbursed goods and services provided by others. These costs include unreimbursed rent, interest during construction, Judgment Fund payments on behalf of USACE, and employee benefits.

1.H. Entity and Nonentity Assets

The assets are categorized as entity or nonentity. Entity assets consist of resources that USACE has the authority to use, or where management is legally obligated to use funds to meet entity obligations. Nonentity assets consist of resources for which USACE maintains stewardship accountability and responsibility to report but are not available for USACE operations.

1.I. Funds with the U.S. Treasury

USACE's monetary financial resources are maintained in U.S. Treasury accounts. The disbursing offices of USACE Finance Center (UFC), the Defense Finance and Accounting Service (DFAS), and the Department of State's financial service centers process the majority of USACE's cash collections, disbursements, and adjustments worldwide. Each disbursing station prepares monthly reports that provide information to the U.S. Treasury on check issued, electronic fund transfers, interagency transfers, and deposits.

In addition, UFC and DFAS sites submit reports to the U.S. Treasury by appropriation on interagency transfers, collections received, and disbursements issued. The U.S. Treasury records this information to the applicable Fund Balance with Treasury (FBWT) account. Differences between USACE's recorded balance in FBWT accounts and U.S. Treasury's FBWT accounts sometimes result and are subsequently reconciled on a monthly basis.

1.J. Investments

USACE reports investments in U.S. Treasury securities at cost, net of amortized premiums or discounts. Premiums or discounts are amortized over the term of the investment using the effective interest rate method or another method obtaining similar results. USACE's intent is to hold investments to maturity, unless they are needed to finance claims or otherwise sustain operations. Consequently, a provision is not made for unrealized gains or losses on these securities.

The Bureau of the Fiscal Service (BFS), on behalf of USACE, invests in nonmarketable securities. Nonmarketable, market-based intragovernmental securities mimic marketable securities, but are not publicly traded.

Net investments are primarily held by the Harbor Maintenance Trust Fund.

1.K. Accounts Receivable

Accounts receivable includes three categories: accounts, claims, and refunds receivable from other Federal entities or from the public. USACE bases the allowance for uncollectible accounts receivable due from the public on established percentages per aged category of the cumulative balance of delinquent public receivables. USACE regards its intragovernmental accounts receivable balance as fully collectable.

Accounts receivable also includes amounts stemming from long-term water storage agreements based on the cost of construction to be recouped by USACE from the municipality and Louisiana coastal restoration. USACE performs an analysis of the collectability of the receivables periodically and recognizes an allowance for estimated uncollectible amounts from the municipality.

1.L. Operating Materials and Supplies

USACE operating materials and supplies are stated at historical cost under moving average cost method and are adjusted for the results of physical inventories. Operating materials and supplies are expensed when consumed.

1.M. General Property, Plant and Equipment

USACE General Property, Plant, and Equipment (PP&E) is capitalized at historical acquisition cost plus capitalized improvements when an asset has a useful life of two or more years, and the acquisition cost exceeds $25 thousand with the exception of buildings and structures related to hydropower projects which are capitalized regardless of cost.

USACE uses estimates to support the historical costs of its real property assets, including the administrative costs of land, acquired prior to FY 1999, and personal property assets acquired prior to FY 2003. The estimates are necessary because certain supporting documentation to substantiate recorded costs for those assets is no longer available. Management's estimation methods, which are consistent with the principles, relevant to USACE circumstances, as contained in SFFAS No. 6, *Accounting for Property, Plant and Equipment*; SFFAS No. 23, *Eliminating the Category National Defense Property, Plant And Equipment*; and SFFAS No. 35, *Estimating the Historical Cost of General Property, Plant, and Equipment: Amending Statements of Federal Financial Accounting Standards 6 and 23*; consist of using a combination of appropriation or engineering documents, or other available real estate, financial, appropriations, and operations data, combined with written management attestation statements, to estimate and support the original acquisition or construction costs recorded for each asset.

Construction in Progress (CIP) is used to accumulate the cost of construction and accumulated costs are transferred from CIP to the relevant asset category when an asset is completed.

1.N. Leases

Lease payments for the rental of equipment and operating facilities are classified as operating leases. An operating lease does not substantially transfer all the benefits and risk of ownership. Payments for operating leases are charged to expense over the lease term as it becomes payable.

1.O. Other Assets

Other assets include travel advances that are not reported elsewhere on USACE's Balance Sheet.

1.P. Accounts Payable

Accounts payable are the amounts owed, but not yet paid, by USACE for goods and services received from other entities, progress in contract performance made by other entities, and rents due to other entities. USACE has no known delinquent accounts payable.

1.Q. Debt

USACE debt consists of the amount owed to the U.S. Treasury for capital improvements to the Washington Aqueduct. USACE entered into an agreement with Arlington County, Virginia, to provide funding to USACE to repay the debt.

1.R. Due to Treasury – General Fund

USACE reported an offsetting custodial liability for amounts Due to Treasury – General Fund for interest and accounts receivable which, when collected, will be deposited in the U.S. Treasury.

1.S. Federal Employee and Veterans' Benefits

The Federal Employees and Veterans' Benefits liability consist of the actuarial liability for Federal Employees Compensation Act benefits. The Department of the Army (DA) actuarial liability for workers' compensation benefits is developed by the Department of Labor (DOL) and provided to the DA at the end of each fiscal year. The liability for future workers' compensation benefits includes the expected liability for death, disability, medical and miscellaneous costs for approved compensation cases, plus a component for incurred but not reported claims. The liability is determined using a method that utilizes historical benefit payment patterns related to a specific incurred period to predict the ultimate payments related to that period. Consistent with past practice, these projected annual benefit

payments have been discounted to present value using the OMB's economic assumptions for 10-year U.S. Treasury notes and bonds.

1.T. Other Liabilities

USACE reports a liability for funded payroll and benefits, to include civilian earned leave, except sick leave, that has been accrued and not used as of the Balance Sheet date. Sick leave is expensed as taken. The liability reported at the end of the accounting period reflects current pay rates.

The SFFAS No. 5, *Accounting for Liabilities of the Federal Government*, as amended by SFFAS No. 12, *Recognition of Contingent Liabilities Arising from Litigation*, defines a contingency as an existing condition, situation, or set of circumstances that involves an uncertainty as to possible gain or loss. The uncertainty will be resolved when one or more future events occur or fail to occur. USACE recognizes contingent liabilities when past events or exchange transactions occur, a future loss is probable, and the loss amount can be reasonably estimated. USACE discloses contingent liabilities when conditions for liability recognition do not exist but there is at least a reasonable possibility of incurring a loss or additional losses.

Examples of loss contingencies include the collectability of receivables, pending or threatened litigation, and possible claims and assessments. USACE's risk of loss and resultant contingent liabilities arise from pending or threatened litigation or claims and assessments due to events such as aircraft, ship and vehicle accidents; property or environmental damages; and contract disputes.

1.U. Environmental and Disposal Liabilities

Environmental and disposal liabilities include future costs to address government-related environmental contamination at USACE sites and other sites at which USACE is directed by Congress to perform remediation work. USACE recognizes a liability for each site as the need for cleanup work becomes probable and costs, based on site-specific engineering estimates, become measurable. Costs to address environmental contamination not caused by the government are recorded as incurred. Cleanup remedies are selected from feasible alternatives using the decision-making process prescribed by the Comprehensive Environmental Response, Compensation, and Liability Act.

1.V. Liabilities Not Covered by Budgetary Resources

Liabilities not covered by budgetary resources are those liabilities for which Congressional action is needed before budgetary resources can be provided.

1.W. Net Position

Net Position consists of Unexpended Appropriations and Cumulative Results of Operations.

Unexpended Appropriations include the amounts of authority that are unobligated and have not been rescinded or withdrawn. Unexpended Appropriations also include amounts obligated for legal liabilities for which payments have not been incurred.

Cumulative Results of Operations represent the net difference, since inception of an activity, between expenses and losses, and financing sources (including appropriations, revenue, and gains).

1.X. Allocation Transfers

USACE is a party to allocation transfers with other Federal agencies both as a transferring (parent) entity and receiving (child) entity. Allocation transfers are legal delegations by one agency of its authority to obligate budget authority and outlay funds to another agency. A separate fund account (allocation account) is created in the U.S. Treasury as a subset of the parent fund account for tracking and reporting purposes. All allocation transfers of balances are credited to this account, and subsequent obligations and outlays incurred by the child entity are charged to this allocation

account as they execute the delegated activity on behalf of the parent entity. Generally, all financial activity related to these allocation transfers (e.g., budget authority, obligations, outlays) is reported in the financial statements of the parent entity, from which the underlying legislative authority, appropriations and budget apportionments are derived. Exceptions to this general rule affecting USACE include certain U.S. Treasury-Managed Trust Funds for whom USACE is the parent in the allocation transfer, but per OMB guidance, the child agencies will report budgetary and proprietary activity relative to these allocation transfers in their financial statements. The U.S. Treasury-Managed Trust Funds, which are included in USACE financial statements, are South Dakota Terrestrial Wildlife Habitat Restoration, Inland Waterways, and Harbor Maintenance trust funds. The U.S. Treasury, BFS, on behalf of USACE, makes allocation transfers from the Harbor Maintenance Trust Fund to the Saint Lawrence Seaway Development Corporation and the U.S. Customs and Border Protection agency.

In addition to these funds, USACE received allocation transfers, as the child, from Departments of Agriculture, Interior, Transportation, Energy and the Appalachian Regional Commission.

NOTE 2. NONENTITY ASSETS

As of September 30	2014	2013
($ in thousands)		
Nonentity Assets		
Intragovernmental Assets		
Fund Balance with Treasury	$ 9,386	$ 14,518
Accounts Receivable	-	11
Total Intragovernmental Assets	9,386	14,529
Cash and Other Monetary Assets	700	727
Accounts Receivable	2,169,224	2,227,499
Total Nonfederal Assets	2,169,924	2,228,226
Total Nonentity Assets	2,179,310	2,242,755
Total Entity Assets	55,616,677	55,909,280
Total Assets	$ 57,795,987	$ 58,152,035

Other Information

Intragovernmental Nonentity Fund Balance with Treasury consists of amounts collected into deposit and suspense accounts and is not available for use in operations. Deposit and suspense accounts are used to record amounts held temporarily until ownership is determined. USACE is acting as an agent or custodian for funds awaiting distribution.

Intragovernmental Nonentity Accounts Receivable represents all receivables from Federal sources where USACE does not have specific statutory authority to retain the receipts. This receivable is for a long-term agreement for an easement.

Cash and Other Monetary Assets reflect the Disbursing Officer's Accountability which is comprised of foreign currency. The Disbursing Officer acts as an agent for the U. S. Treasury.

Nonfederal Accounts Receivable represents all receivables from nonfederal sources where USACE does not have specific statutory authority to retain the receipts. These receivables consist of multiple types of long-term agreements such as easements, sale of hydroelectric power, recreational development, and long-term water storage agreements.

Note 1.K "Accounts Receivable", Note 5, "Accounts Receivable, Net", and Note 13, "Due to Treasury – General Fund and Other Liabilities", provide additional information related to long-term water storage agreements.

NOTE 3. FUND BALANCE WITH TREASURY

As of September 30		2014		2013
($ in thousands)				
Fund Balances				
General Funds	$	13,785,614	$	14,896,365
Revolving Funds		1,771,156		1,684,548
Trust Funds		117,038		107,468
Special Funds		91,475		91,372
Contributed Funds		1,084,706		1,093,463
Other Fund Types		59,518		54,538
Total Fund Balances	$	16,909,507	$	17,927,754

Status of Fund Balance with Treasury

As of September 30		2014		2013
($ in thousands)				
Unobligated Balance				
Available	$	10,979,719	$	12,357,556
Unavailable		7,671		4,221
Obligated Balance not yet Disbursed		8,139,045		7,814,025
Nonbudgetary FBWT		80,913		92,907
Non FBWT Budgetary Accounts		(2,297,841)		(2,340,955)
Total	$	16,909,507	$	17,927,754

Other Information

The Status of Fund Balance with Treasury reflects the budgetary resources to support the FBWT and is a reconciliation between budgetary and proprietary accounts. It primarily consists of unobligated and obligated balances. The balances reflect the budgetary authority remaining for disbursement against current or future obligations.

Unobligated Balance is classified as available or unavailable and represents the cumulative amount of budgetary authority that has not been set aside to cover outstanding obligations. The unavailable balance consists primarily of funds invested in U.S. Treasury securities that are temporarily precluded from obligation by law. Certain unobligated balances are restricted for future use and are not apportioned for current use. Unobligated balances for trust fund accounts are restricted for use by the public law that established the funds. USACE is the lead agency for reporting the financial data for the Inland Waterways, Harbor Maintenance, and South Dakota Terrestrial Wildlife Habitat Restoration trust funds. These trust funds remain invested and restricted for use until transferred to meet current expenditure requirements.

Obligated Balance not yet Disbursed represents funds that have been obligated for goods and services not received, and those received but not paid.

Nonbudgetary FBWT includes accounts that do not have budgetary authority, such as deposit and clearing accounts.

Non FBWT Budgetary Accounts reduces the Status of FBWT and includes borrowing authority, investment accounts, accounts receivable, and unfilled orders without advance from customers.

NOTE 4. INVESTMENTS AND RELATED INTEREST

As of September 30 *($ in thousands)*	2014 Cost	Amortization Method	Amortized (Premium) / Discount	Investments, Net	Market Value Disclosure
Intragovernmental Securities					
Nonmarketable, Market-Based	$ 8,610,661	Effective Interest	(104,628)	8,506,033	8,564,690
Accrued Interest	20,812		-	20,812	20,812
Total Intragovernmental Securities	$ 8,631,473		(104,628)	8,526,845	8,585,502

As of September 30 ($ in thousands)	2013 Cost	Amortization Method	Amortized (Premium) / Discount	Investments, Net	Market Value Disclosure
Intragovernmental Securities					
Nonmarketable, Market-Based	$ 8,099,987	Effective Interest	(127,288)	7,972,699	8,078,345
Accrued Interest	26,215		-	26,215	26,215
Total Intragovernmental Securities	$ 8,126,202		(127,288)	7,998,914	8,104,560

Other Information

The Federal Government does not set aside assets to pay future benefits or other expenditures associated with funds from dedicated collections. The cash receipts collected from the public for dedicated collections are deposited in the U.S. Treasury, which uses the cash for general Government purposes. Treasury securities are issued to USACE as evidence of its receipts. Treasury securities are assets to USACE and liabilities to the U.S. Treasury. Because USACE and the U.S. Treasury are both Governmental entities, these assets and liabilities offset each other from the standpoint of the Government as a whole. For this reason, they do not represent an asset or a liability in the U.S. Government-wide financial statements.

Treasury securities provide USACE with authority to draw upon the U.S. Treasury to make future benefit payments or other expenditures. When USACE requires redemption of these securities to make expenditures, the Government finances those expenditures out of accumulated cash balances, by raising taxes or other receipts, by borrowing from the public or repaying less debt, or by curtailing other expenditures. This is the same way that the Government finances all other expenditures.

Total net investments among the Harbor Maintenance Trust Fund for FY 2014 and FY 2013 are $8.4 billion and $7.9 billion, respectively.

The U.S. Treasury also provides the investment market value based on the bid price provided by the Federal Reserve Bank of New York on September 30, 2014 and September 30, 2013, respectively.

NOTE 5. ACCOUNTS RECEIVABLE, NET

As of September 30 *($ in thousands)*	2014 Gross Amount Due	Allowance For Estimated Uncollectibles	Accounts Receivable, Net
Intragovernmental Receivables	$ 607,980	$ N/A	$ 607,980
Nonfederal Receivables (From the Public)	$ 2,185,117	$ (700)	$ 2,184,417
Total Accounts Receivable	$ 2,793,097	$ (700)	$ 2,792,397

As of September 30 *($ in thousands)*	2013 Gross Amount Due	Allowance For Estimated Uncollectibles	Accounts Receivable, Net
Intragovernmental Receivables	$ 563,870	$ N/A	$ 563,870
Nonfederal Receivables (From the Public)	$ 2,250,390	$ (296)	$ 2,250,094
Total Accounts Receivable	$ 2,814,260	$ (296)	$ 2,813,964

Other Information

As of September 30, 2014 and September 30, 2013, Accounts Receivables Intragovernmental include $476.2 million and $444.3 million, respectively, for amounts received from the Coastal Wetlands Restoration Trust Fund for projects in the New Orleans District.

As of September 30, 2014 and September 30, 2013, Accounts Receivable from the Public, net of allowances, stemming from long-term water storage and Louisiana coastal restoration, flood control and hurricane protection agreements include $2.2 billion and $2.2 billion, respectively. These agreements have maturity dates ranging from two to fifty years, and interest rates based on the U.S. Treasury effective rate at the time of the agreement.

NOTE 6. CASH AND OTHER MONETARY ASSETS

As of September 30	2014	2013
($ in thousands)		
Foreign Currency	$ 700	$ 727
Total Cash and Foreign Currency	$ 700	$ 727

Other Information

Cash is the total of cash resources under the control of USACE, which includes coin, paper currency, negotiable instruments, and amounts held for deposit in banks and other financial institutions. As of September 30, 2014 and September 30, 2013, USACE does not have cash.

Foreign currency consists of the total U.S. dollar equivalent of both purchased and nonpurchased foreign currencies held in foreign currency fund accounts.

USACE conducts operations overseas on behalf of the U.S. Government which involves the use of foreign currency. Foreign currency fluctuations require adjustments to the original obligation amount at the time of payment. USACE does not separately identify currency fluctuations.

USACE translates foreign currency to U.S. dollars utilizing the U.S. Treasury Prevailing Rate of Exchange. This rate is the most favorable rate that would legally be available to the Federal Government for acquisition of foreign currency for its official disbursements and accommodation of exchange transactions. There are no significant effects from changes in the foreign currency exchange rate.

NOTE 7. OPERATING MATERIALS AND SUPPLIES

As of September 30	2014	2013
($ in thousands)		
Operating Materials and Supplies:		
Items Held for Use	$ 15,417	$ 7,798
Total	$ 15,417	$ 7,798

Other Information

Operating materials and supplies (OM&S) is comprised of personal property to be consumed in normal operations. The OM&S category includes materials used for constructing riverbank stabilization devices, and spare and repair parts. USACE applies moving average cost flow assumptions to arrive at the historical cost of the ending OM&S and cost of goods consumed.

As of September 30, 2014 and 2013, there were no differences between the carrying amount and the net realizable value of OM&S. There are no restrictions on the use of OM&S.

As of September 30, 2014 and 2013, USACE does not have inventories, stockpile materials, seized or forfeited properties, or goods held under price support and stabilization programs, as defined in SFFAS No. 3, "Accounting for Inventory and Related Property".

NOTE 8. GENERAL PROPERTY, PLANT & EQUIPMENT, NET

As of September 30	2014				
($ in thousands)	Depreciation/ Amortization Method	Service Life (yrs)	Acquisition Value	(Accumulated Depreciation/ Amortization)	Net Book Value
Major Asset Classes					
Land	N/A	N/A	$ 9,057,234	$ N/A	$ 9,057,234
Buildings, Structures, and Facilities	S/L	20 - 100	33,177,696	(17,190,306)	15,987,390
Leasehold Improvements	S/L	Lease term	60,048	(34,426)	25,622
Software	S/L	2 - 10	135,705	(104,058)	31,647
General Equipment	S/L	5 - 50	2,014,248	(1,039,687)	974,561
Construction-in- Progress	N/A	N/A	3,474,608	N/A	3,474,608
Total General PP&E			$ 47,919,539	$ (18,368,477)	$ 29,551,062

As of September 30	2013				
($ in thousands)	Depreciation/ Amortization Method	Service Life (yrs)	Acquisition Value	(Accumulated Depreciation/ Amortization)	Net Book Value
Major Asset Classes					
Land	N/A	N/A	$ 9,040,646	$ N/A	$ 9,040,646
Buildings, Structures, and Facilities	S/L	20 - 100	31,876,370	(16,636,063)	15,240,307
Leasehold Improvements	S/L	Lease term	40,382	(33,336)	7,046
Software	S/L	2 - 10	132,751	(96,126)	36,625
General Equipment	S/L	5 - 50	1,971,684	(985,349)	986,335
Construction-in- Progress	N/A	N/A	4,091,875	N/A	4,091,875
Total General PP&E			$ 47,153,708	$ (17,750,874)	$ 29,402,834

Legend for Depreciation Methods:
S/L = Straight Line N/A = Not Applicable

Other Information

Power generated by hydroelectric power plants operated and maintained by USACE is transmitted to four Power Marketing Administrations for distribution to power companies across the United States. The service life for USACE's hydropower project related assets is derived from guidance provided by the Federal Energy Regulatory Commission based on industry standards. The hydropower project related assets make up $11.0 billion of the net book value of USACE's PP&E in FY 2014 and $10.3 billion in FY 2013.

As of September 30, 2014, approximately $26.1 billion of the acquisition value recorded in the PP&E line is being supported by alternate methods described in Note 1.L, "General Property, Plant, and Equipment", and $26.2 billion as of September 30, 2013. The net book value is $8.7 billion at September 30, 2014, and $10.3 billion at September 30, 2013.

Note 9, "Stewardship Property, Plant and Equipment" provides the physical quantity information for multi-use heritage assets that are recognized and presented with general PP&E in the basic financial statements.

There are no restrictions on the use or convertibility of general PP&E.

NOTE 9. STEWARDSHIP PROPERTY, PLANT AND EQUIPMENT (PP&E)

Information Related to Stewardship PP&E

Stewardship PP&E are assets whose properties resemble those of the General PP&E that are traditionally capitalized in the financial statements. Due to the nature of these assets, however, valuation would be difficult and matching costs with specific periods would not be meaningful. Stewardship PP&E includes heritage assets. Heritage assets are items of historical, natural, cultural, educational, or artistic significance, (e.g., aesthetic) or items with significant architectural characteristics. Heritage assets are expected to be preserved indefinitely. In the case where a heritage asset serves both a heritage function and general government operations, the asset is considered a multi-use heritage asset. Multi-use heritage assets are recognized and presented with general PP&E in the basic financial statements.

Relevance to the USACE Mission

USACE, as a steward of public land, has the responsibility for ensuring that properties of a historical or traditional nature located on USACE lands are preserved and managed appropriately. USACE implements Cultural Resource Management in a positive manner that fulfills the requirements of all laws, regulations, and policies, for all project undertakings in an environmentally and economically sound manner, and in the interest of the American public.

Stewardship Policy

USACE has the responsibility to manage cultural resources and heritage properties on USACE-owned or managed lands. Engineering Regulations 1105-2-100 and 1130-2-540 provide the basic guidance for the USACE Civil Works Program. The term "cultural resources" refers to any building, site, structure, object, or other material significant in history, architecture, archeology, or culture. Historic properties are sites that are eligible for inclusion in National Register of Historic Places. The National Register is an inventory of historic properties important in our Nation's history, culture, architecture, archeology, and engineering. The National Register office within the National Park Service maintains the inventory. Properties are either listed on the National Register, have formally been determined eligible, or appear to meet eligibility criteria to be listed. In addition to the Engineering Regulations, USACE also adheres to Army Regulations 200-4 and 870-20 related to managing cultural resources and heritage assets.

Heritage Asset Categories

1. Buildings and Structures. Buildings and structures are those heritage assets listed on, or eligible for listing on, the National Register of Historic Places. Buildings and structures include a range of historic resources from the Crooked Creek Lake Dam located in Pennsylvania and the Indiana and Michigan Canal in Illinois. They also include some non-traditional structures, such as the Les Dalles Rail Car located in Oregon. There are 93 buildings and structures listed on the National Register and 250 determined eligible for listing. There are a total of 343 heritage assets in this category; this reflects a decrease of 13 buildings and structures from the prior fiscal yearend report. Additionally, we noted 142 building and structures as multi-use heritage assets within our districts and divisions. An example of a multi-use heritage asset within the Corps is the Mill Spring Mill in Kentucky, which is listed on the National Register of Historic Places and serves as a full service visitor center.

2. Archeological Sites. Cemeteries and archeological sites are archeological properties listed on or eligible for listing in the National Register of Historic Places. The current National Register inventory for USACE included 117 archeological properties listed and 578 archeological properties determined to be eligible for listing. This total of 695 archeological sites reflects an increase of 66 from the prior fiscal yearend report.

3. Museum Collection Items (Objects). Museum collection items are unique for one or more of the following reasons: historical or natural significance; cultural, educational or artistic importance; or significant technical or architectural characteristics. These items are divided into two subcategories: fine art and objects. These include museum collection items that have historical or cultural significance, but lack formal listing and the demonstrated need for active maintenance. USACE added a net of 2 items to the Museum Collection Items for FY 2014.

Heritage Assets

	As of 1 October 2012	Increase	Decrease	As of 30 September 2013	Increase	Decrease	As of 30 September 2014
Building and Structures	312	53	(9)	356	4	(17)	343
Archeological Sites	607	30	(8)	629	86	(20)	695
Museum Collection Items	211	8	(2)	217	2	(0)	219

Acquisition and Withdrawal of Heritage Assets

USACE had a net increase of 55 heritage assets during FY 2014 from the "eligible for" and National Register listing. USACE reported this net affect through its normal process of established regulations for identifying Heritage Assets. USACE provides this information to the keeper of the National Register of Historic Places at the Department of the Interior, National Park Service. USACE adds museum collections as items are unearthed or otherwise acquired on USACE lands. USACE removes museum collections when items are donated to museums, universities, or returned to tribes.

NOTE 10. LIABILITIES NOT COVERED BY BUDGETARY RESOURCES

As of September 30	2014		2013	
($ in thousands)				
Intragovernmental Liabilities				
Debt	$	1,491	$	1,721
Due to Treasury - General Fund		2,169,177		2,227,470
Other		499,063		238,485
Total Intragovernmental Liabilities	$	2,669,731	$	2,467,676
Federal Employee and Veterans' Benefits		261,089		268,952
Environmental and Disposal Liabilities		925,704		977,023
Contingent Liabilities		95,528		440,456
Total Liabilities Not Covered by Budgetary Resources	$	3,952,052	$	4,154,107
Total Liabilities Covered by Budgetary Resources	$	2,937,752	$	3,133,179
Total Liabilities	$	6,889,804	$	7,287,286

Other Information

Intragovernmental Liabilities – Debt is comprised of the amount owed by USACE to the U.S. Treasury for capital improvements to the Washington Aqueduct. Arlington County, Virginia provides funding to USACE to repay the debt. Refer to Note 11, "Debt," for additional details and disclosures.

Intragovernmental Liabilities – Due to Treasury - General Fund includes offsetting custodial liability to accounts receivable. The custodial liability is for amounts that will be deposited in the general fund of the U.S. Treasury when collected and are primarily related to long-term water storage and Louisiana coastal restoration, flood control and hurricane protection agreements. Budgetary resources are not required for these types of liabilities.

Intragovernmental Liabilities – Other includes Judgment Fund liabilities-Contract Dispute Act (CDA), and workmen's compensation liabilities under the Federal Employees Compensation Act (FECA). The FECA liability will be funded in future appropriations.

Federal Employee and Veterans' Benefits include actuarial liability for FECA. Refer to Note 13, "Due to Treasury - General Fund and Other Liabilities," for additional details and disclosures. The FECA actuarial liability is a future funded expense and will be funded in future appropriations.

Environmental and Disposal Liabilities represent estimated cleanup costs for environmental liabilities, which will be funded in future appropriations. Refer to Note 12, "Environmental and Disposal Liabilities," and Note 13, "Due to Treasury - General Fund and Other Liabilities," for additional details and disclosures.

Contingent liabilities represent probable losses related to lawsuits filed against USACE. Contingent liabilities may be funded in future appropriations. Refer to Note 14, "Contingencies" for additional details and disclosures.

NOTE 11. DEBT

As of September 30	2014		
($ in thousands)	Beginning Balance	Net Borrowing	Ending Balance
Agency Debt (Intragovernmental)			
Debt to the Treasury	$ 1,721	(230)	$ 1,491

As of September 30	2013		
($ in thousands)	Beginning Balance	Net Borrowing	Ending Balance
Agency Debt (Intragovernmental)			
Debt to the Treasury	$ 4,273	(2,552)	$ 1,721

Other Information

The outstanding debt consists of interest and principal payments due to the U.S. Treasury. USACE executed three promissory notes totaling $75.0 million with the U.S. Treasury for capital improvements to the Washington Aqueduct. USACE entered into an agreement with Arlington County, Virginia to provide funding to USACE to repay the debt. USACE recognized a receivable for $1.5 million in principal due from Arlington County as of September 30, 2014. The remaining debt balance is scheduled to be paid off in FY 2023. Actual cumulative amount of funds borrowed from the U.S. Treasury was $74.9 million of which $1.5 million was outstanding at September 30, 2014 and $1.7 million was outstanding at September 30, 2013. There were no withdrawals from the U.S. Treasury for FY 2014 or FY 2013. Total principal repayments in FY 2014 were $229.7 thousand and total principal repayments in FY 2013 were $2.6 million.

NOTE 12. ENVIRONMENTAL AND DISPOSAL LIABILITIES

As of September 30	2014	2013
($ in thousands)		
Formerly Utilized Sites Remedial Action Program (FUSRAP)	$ 915,399	$ 967,478
Other	10,305	9,545
Total Environmental and Disposal Liabilities	$ 925,704	$ 977,023

Assumptions and Uncertainties

Estimating environmental liabilities requires making assumptions about future activities and is inherently uncertain. The cleanup estimates reflect local decisions and expectations as to the extent of cleanup and site reuse, and include assessments of the effort required to complete the project based on data collected during the remedial investigation and feasibility study phases of each project. For most projects, the volume of contaminated material to be removed and the cost to dispose of such material, including transportation, are the elements of the estimates with the greatest uncertainty and potential for significant increase in project costs. For some projects the estimate includes contingency provisions intended to account for the uncertainties associated with estimating these elements and other factors.

Based on the inherent uncertainties associated with environmental cleanup the initial cost estimate for each site is not exact and will change as more relevant data becomes available. Estimates are refined as alternative approaches are evaluated and a preferred alternative is approved in a record of decision. USACE recognizes expenses related to cleanup costs during the period incurred.

USACE considers various key factors in determining whether future outflows of resources can be reasonably estimated, including:

- Completion of remedial investigation/feasibility study or other study,
- Experience with similar site and/or conditions, and
- Availability of remediation technology.

In addition to the liability amount reported above, USACE is subject to other potential environmental liabilities for which the exact amount or range of loss is unknown.

Formerly Utilized Sites Remedial Action Program

USACE is responsible for the Formerly Utilized Sites Remedial Action Program (FUSRAP), established to respond to radiological contamination from early U.S. Atomic Energy and Weapons Programs. For each FUSRAP site, USACE has received Congressional authorization to ascertain the extent of environmental contamination; select a remedy with input from state and Federal authorities and local stakeholders; perform the cleanup work; and dispose of wastes. After cleanup work is completed at each site, USACE transfers responsibility for long-term surveillance and monitoring to the U.S. Department of Energy.

Changes in the FUSRAP liability during the fiscal years ended September 30, 2014 and 2013 resulted from inflation adjustments to reflect changes in costs for the current year, cleanup activities performed, adjustments to estimates of soil volumes, and approval of new projects.

Other Environmental Liabilities

Other environmental liabilities relate to environmental contamination at current or former USACE project sites.

NOTE 13. DUE TO TREASURY – GENERAL FUND AND OTHER LIABILITIES

As of September 30	2014		
($ in thousands)	Current Liability	Noncurrent Liability	Total
Intragovernmental			
Due to Treasury - General Fund	$ 6,472	$ 2,162,705	$ 2,169,177
Advances from Others	250,692	-	250,692
Deposit Funds and Suspense Account Liabilities	(292)	-	(292)
Disbursing Officer Cash	700	-	700
Judgment Fund Liabilities	451,613	-	451,613
FECA Reimbursement to the Department of Labor	20,690	26,061	46,751
Employer Contribution and Payroll Taxes Payable	33,271	-	33,271
Total Intragovernmental	$ 763,146	$ 2,188,766	$ 2,951,912
Accrued Funded Payroll and Benefits	$ 399,037	$ -	$ 399,037
Advances from Others	357,085	-	357,085
Deferred Credits	1,074,021	-	1,074,021
Deposit Funds and Suspense Accounts	9,433	-	9,433
Contract Holdbacks	61,434	-	61,434
Contingent Liabilities	95,528	-	95,528
Total Other Liabilities	$ 2,759,684	$ 2,188,766	$ 4,948,450

As of September 30	2013					
($ in thousands)	Current Liability		Noncurrent Liability		Total	
Intragovernmental						
Due to Treasury - General Fund	$	44,896	$	2,182,574	$	2,227,470
Advances from Others		361,863		-		361,863
Deposit Funds and Suspense Account Liabilities		(416)		-		(416)
Disbursing Officer Cash		727		-		727
Judgment Fund Liabilities		189,693		-		189,693
FECA Reimbursement to the Department of Labor		22,354		25,711		48,065
Employer Contribution and Payroll Taxes Payable		31,775		-		31,775
Total Intragovernmental	$	650,892	$	2,208,285	$	2,859,177
Accrued Funded Payroll and Benefits	$	430,992	$	-	$	430,992
Advances from Others		360,846		-		360,846
Deferred Credits		1,092,309		-		1,092,309
Deposit Funds and Suspense Accounts		14,557		-		14,557
Contract Holdbacks		60,097		-		60,097
Contingent Liabilities		440,456		-		440,456
Total Other Liabilities	$	3,050,149	$	2,208,285	$	5,258,434

Other Information

Intragovernmental – Due to Treasury - General Fund is the custodial liability held with U.S. Treasury for repayment of interest and accounts receivable which, when collected, will be deposited in the U.S. Treasury. USACE records a custodial liability for payables from water storage and hydraulic mining contracts and for flood control, coastal restoration and hurricane protection measures with the Coastal Protection and Restoration Authority of Louisiana.

Judgment Fund Liabilities - USACE has recognized an unfunded liability arising from Judgment Fund Contract Disputes Act (CDA) settlements in accordance with a provision of the CDA requiring agencies to reimburse the Judgment Fund for payments to claimants in cases involving Federal contract disputes. USACE cannot fund the CDA claims since it is funded for projects and does not receive funding for this type of claim. USACE sought supplemental appropriations for payment of CDA claims in FY 2000, FY 2006, and FY 2007, but these requests were not approved. The FY 2014 budget does not provide funding for payment of the CDA claims.

NOTE 14. CONTINGENCIES

Legal Contingencies

The USACE is a party in various administrative proceedings and legal actions related to claims for environmental damage, tort actions, and contractual bid protests. The USACE has accrued contingent liabilities for legal actions where USACE's Office of the Chief Counsel considers an adverse decision probable and the amount of loss is measurable. In the event of an adverse judgment against the Government, some of the liabilities may be payable from the U.S. Treasury Judgment Fund. The USACE records contingent liabilities in Note 13, "Due to Treasury – General Fund and Other Liabilities."

Within certain monetary threshold, the U.S. Army Claims Service (USARCS) supervises processing, investigates, adjudicates, and negotiates the settlement of non-contractual administrative claims on behalf of and against the Department of the Army (including USACE); however, because of their uniqueness and size, the hurricane Katrina-related administrative claims are processed by the U.S. Department of Justice (DOJ). By law, administrative claims filed against the Government are either adjudicated, denied, or are effectively denied if no action is taken within six months from the claim filing date. Barring such resolution within six months from the date of filing, claimants may file legal cases with the Federal Court. Filing of an administrative claim for resolution is a required precursor to a claimant's filing against the Government in Federal Court.

Claims settled below the statutory threshold of $2,500 are paid using Civil Works appropriations; settlements above this threshold are referred to the Judgment Fund for payment. With the exception of CDA settlements disclosed in Note 13, "Due to Treasury – General Fund and Other Liabilities," amounts that are paid by the Judgment Fund are recorded as expenses and imputed financing sources.

The amounts disclosed for litigations, claims, and assessments are fully supportable and agree with USACE's legal representation letters and management summary schedule.

Probable Likelihood of an Adverse Outcome

The USACE is subject to potential liabilities where adverse outcomes are probable, and claims are approximately $95.5 and $440.5 million as of September 30, 2014 and September 30, 2013, respectively. The contingent liabilities were included in Note 13, "Due to Treasury – General Fund and Other Liabilities."

Reasonably Possible Likelihood of an Adverse Outcome

The USACE is subject to potential liabilities where adverse outcomes are reasonably possible, and claims are approximately $500 thousand - $7.8 billion and $11 - $7.2 billion, as of September 30, 2014 and September 30, 2013, respectively.

Hurricane Katrina-Related Claims and Litigation

Various parties filed administrative claims and lawsuits against USACE as a result of hurricane Katrina in 2005. Most of the Katrina-related litigation was consolidated before a single federal judge sitting in the Federal District Court in New Orleans. The court, for case management purposes, classified the individual cases into three categories and ordered the filing of superseding, master complaints in most categories: Levee, Mississippi River Gulf Outlet (MRGO), and Barge. The MRGO category, Barge category, and Levee category, involving similar geographic areas, are most relevant to USACE at this point. All Katrina-related tort litigation has now concluded in favor of the Government.

Concerning the Levee Master consolidated class action complaint, the Court granted the United States' motion to dismiss. By Order entered on October 14, 2010, the Court certified this decision as a final judgment. On September 24, 2012, the U.S. Fifth Circuit Court of Appeals issued a substitute ruling affirming the trial court order of dismissal. The plaintiffs appealed this decision on the Supreme Court in other matters, but did not appeal the relevant holding in this matter, effectively ending the litigation.

Following the exhaustion of appeals, including denial of certiorari by the United States Supreme Court, the U.S. filed a global motion to dismiss or in the alternative for summary judgment in each of the 259 individual hurricane cases before the court. The court granted the motion by Order entered on December 20, 2013. Appeals have been taken in 10 individual cases; one pertains to the Levee category.

In light of the resolution of these Katrina tort litigation cases, the government issued approximately 527,000 denial letters on July 23, 2014 for all outstanding administrative claims.

Including the Katrina-related litigation, USACE has a total of 36 cases, as of September 30, 2014, above the materiality threshold of $4.4 million. The USACE Office of the Chief Counsel has determined that 5 cases are probable and 17 cases are reasonably possible.

Other Litigation

In addition to the matters described above, USACE is subject to other potential liabilities for which the exact amount or range of loss is unknown.

Commitments and Other Contingencies

The USACE does not have undelivered orders for open contracts citing cancelled appropriations which may remain unfilled or unreconciled, and for which the reporting entity may incur a contractual commitment for payment.

The USACE does not have contractual arrangements which may require financial obligations, such as fixed price contracts with escalation, price redetermination, or incentive clauses, which may require future financial obligations.

NOTE 15. GENERAL DISCLOSURES RELATED TO THE STATEMENT OF NET COST

Year ended September 30		2014		2013
($ in thousands)				
Intragovernmental Costs	$	1,838,285	$	1,671,544
Public Costs		7,195,068		8,291,797
Total Costs	$	9,033,353	$	9,963,341
Intragovernmental Earned Revenue	$	(1,725,826)	$	(2,288,527)
Public Earned Revenue		(701,127)		(622,374)
Total Earned Revenue	$	(2,426,953)	$	(2,910,901)
Net Cost of Operations	$	6,606,400	$	7,052,440

Other Information

Intragovernmental costs and revenue are related to transactions made between two reporting entities within the Federal Government. Public costs and revenues are exchange transactions made between the reporting entity and a nonfederal entity.

The consolidated Statement of Net Cost (SNC) is unique because its principles are driven on understanding the net cost of programs and/or organizations that the Federal Government supports through appropriations or other means. The SNC represents the Civil Works Program for USACE.

USACE incurred no costs associated with acquiring, constructing, improving, reconstructing or renovating heritage assets.

NOTE 16. DISCLOSURES RELATED TO THE STATEMENT OF CHANGES IN NET POSITION

Other Information

Appropriations received on the Statement of Budgetary Resources (SBR) should not and do not agree with appropriations received on the Statement of Changes in Net Position (SCNP) due to differences between proprietary and budgetary accounting concepts and reporting requirements. The difference is due to additional resources of $1.6 billion during FY 2014 and $1.0 billion during FY 2013 in appropriated trust, contributed, and special fund receipts included in Appropriations on the SBR. These funds do not update the proprietary appropriations received amount reported on the SCNP. Refer to Note 17, "Statement of Budgetary Resources," for additional disclosures and details.

NOTE 17. DISCLOSURES RELATED TO THE STATEMENT OF BUDGETARY RESOURCES

As of September 30	2014	2013
($ in thousands)		
Net Amount of Budgetary Resources Obligated for Undelivered Orders at the End of the Period	$ 6,699,409	$ 6,434,941

Other Information

Category A apportionments distribute budgetary resources by fiscal quarter. Category B apportionments distribute budgetary resources by activity, project, object or a combination of these categories. Exempt budgetary resources are not subject to apportionment because they are not appropriated funds. Funding sources for exempt category comes from sources outside the Federal Government.

For FY 2014, the amount of direct obligations incurred include: $7.1 billion for Category A; $1.2 billion for Category B, and $439.1 million exempt from apportionment. The amount of reimbursable obligations incurred include: $1.3 billion for Category A and $7.8 billion exempt from apportionment. Undelivered orders presented in the SBR include undelivered orders-unpaid for both direct and reimbursable funds.

For FY 2013, the amount of direct and reimbursable obligations incurred against amounts apportioned under Category A SBR includes: $8.2 billion for direct obligations; $9.7 billion for reimbursable obligations; and $47.5 million for reimbursable obligations exempt from apportionment. USACE did not report any direct obligations exempt from apportionment. USACE has no apportionments under Category B. Undelivered orders presented in the SBR include undelivered orders-unpaid for both direct and reimbursable funds.

Intraentity transactions have not been eliminated because the SBR is presented as a combined statement.

Permanent Indefinite Appropriations - USACE receives receipts from hydraulic mining in California; leases of land acquired for flood control, navigation, and allied purposes; and licenses under the Federal Power Act for improvements of navigable water including maintenance and operation of dams. These funds are available for expenditure.

There are no legal arrangements that affect the use of unobligated balances of budget authority.

There are differences between amounts reported on the SBR and the SF133, Report on Budget Execution (SF133) for FY 2014 and FY 2013. Treasury account symbol 96X6094 (Advances from the District of Columbia) is not included in the SF133. This money is not from appropriated funds and is not included in the OMB's data for budget formulation. USACE does include this appropriation in the SBR.

The President's Budget with actual figures for FY 2014 has not yet been published. The FY 2016 President's Budget will include actual figures for FY 2014 reporting. The FY 2016 President's Budget can be found at: *http://www.whitehouse.gov/omb*, early in FY 2015. The following chart is a reconciliation of the FY 2015 President's Budget actual figures for FY 2013 to FY 2013 Statement of Budgetary Resources as required by OMB Circular No. A-136.

Department of Defense
U.S. Army Corps of Engineers - Civil Works

Reconciliation of FY 2013 SBR to 2015 President's Budget

(in millions of dollars)

	Budgetary Resources Line 1930	Obligations Incurred Line 0900	Offsetting Receipts Line 0299	Net Outlays Line 4190	Explanation for reconciling differences
SBR	30,279	17,917	807	7,099	
Reconciling Difference	(41)	(37)			Expired American Recovery and Reinvestment Act (ARRA) accounts are included in the SBR, but not in the President's Budget.
Reconciling Difference	(72)	(48)		8	The SBR includes Treasury symbol 96X6094 for advances from the District of Columbia for work on the Washington Aqueduct. It is not included in the President's budget since these are not appropriated funds.
Reconciling Difference			(256)		General funds clearing accounts are included as distributed offsetting receipts on the SBR in accordance with DFAS yearend guidance. It is not included in the President's Budget amount.
Reconciling Difference			1,774		The President's Budget line 0299 includes total receipts and collections for the trust funds. The SBR includes only USACE's distributed offsetting receipts to South Dakota Terrestrial Wildlife per Treasury Financial Manual, Federal Account Symbols and Titles (FAST Book). Other trust fund receipts are included in the budgetary resources, line 0299.
Reconciling Difference			8		Per the FAST Book, receipt account 96R 5125 is not a distributed offsetting receipt account and is not included in the SBR as a distributed offsetting receipt. It is included in the President's Budget amount.
Total	30,166	17,832	2,333	7,107	
President's Budget	30,164	17,832	2,334	7,107	
Difference	(2)	(0)	1	(0)	Due to rounding.

NOTE 18. RECONCILIATION OF NET COST OF OPERATIONS (PROPRIETARY) TO BUDGET

Year ended September 30	2014	2013
($ in thousands)		
Resources Used to Finance Activities:		
Budgetary Resources Obligated:		
Obligations incurred	$ 17,838,591	$ 17,917,199
Less: Spending authority from offsetting collections and recoveries	(10,453,676)	(11,143,432)
Obligations net of offsetting collections and recoveries	7,384,915	6,773,767
Less: Offsetting receipts	(496,296)	(806,706)
Net obligations	6,888,619	5,967,061
Other Resources:		
Donations and forfeitures of property	603	2,462
Transfers in/out without reimbursement	128,981	135,538
Imputed financing from costs absorbed by others	314,517	306,695
Net other resources used to finance activities	444,101	444,695
Total resources used to finance activities	$ 7,332,720	$ 6,411,756
Resources Used to Finance Items Not Part of the Net Cost of Operations:		
Change in budgetary resources obligated for goods, services and benefits ordered but not yet provided:		
Undelivered Orders	$ (264,468)	$ 493,391
Unfilled Customer Orders	(241,025)	(78,630)
Budgetary offsetting collections and receipts that do not affect Net Cost of Operations	118,381	321,904
Resources that finance the acquisition of assets	(5,033)	(5,162)
Other resources or adjustments to net obligated resources that do not affect Net Cost of Operations:		
Other	(176,651)	(190,500)
Total Resources Used to Finance Items not Part of the Net Cost of Operations	$ (568,796)	$ 541,003
Total Resources Used to Finance the Net Cost of Operations	$ 6,763,924	$ 6,952,759
Components of the Net Cost of Operations that will not Require or Generate Resources in the Current Period:		
Components Requiring or Generating Resources in Future Period:		
Change in environmental and disposal liability	$ (51,319)	$ (21,218)
Change in exchange revenue receivable from the public	6,978	117,441
Other	(92,185)	1,558
Total components of Net Cost of Operations that will not Require or Generate Resources in future periods	$ (136,526)	$ 97,781
Components not Requiring or Generating Resources:		
Depreciation and amortization	$ 681,238	$ 643,444
Revaluation of assets or liabilities	63,107	20,903
Other		
Cost of Goods Sold	379	814
Operating Material and Supplies Used	(5)	17,584
Cost Capitalization Offset	(827,960)	(781,942)
Other	62,243	101,097
Total Components of Net Cost of Operations that will not Require or Generate Resources	(20,998)	1,900
Total components of Net Cost of Operations that will not Require or Generate Resources in the Current Period	(157,524)	99,681
Net Cost of Operations	$ 6,606,400	$ 7,052,440

Other Information

The following note schedule lines are presented as combined instead of consolidated due to intraentity budgetary transactions not being eliminated:

- Obligations Incurred
- Spending Authority from Offsetting Collections and Recoveries
- Obligations Net of Offsetting Collections and Recoveries
- Offsetting Receipts
- Net Obligations
- Undelivered Orders
- Unfilled Customer Orders

Composition of Other Resources – Other, and Other Resources or Adjustments to Net Obligated Resources that do not affect Net Cost of Operations: Other – The FY 2014 and FY 2013 amounts include the net amount of assets transferred between USACE and other government agencies.

Composition of Components Requiring or Generating Resources in Future Periods: Other - The FY 2014 amounts include the current year increase to unfunded Judgment Fund Contract Disputes Act claims. The FY 2014 amounts also include the current year decrease to the Federal Employees' Compensation (FECA) liability and the FECA actuarial liability. The FY 2013 amount includes current year Judgment Fund Contract Disputes Act claims and current year unfunded expense for the FECA liability.

Composition of Components not Requiring or Generating Resources: Other – The FY 2014 and FY 2013 amounts include bad debt expense and cost capitalization offset expense. The cost capitalization offset account provides a mechanism to offset all direct costs in the expense accounts when those costs are subsequently capitalized into an in-process account. Current year costs associated with nonfederal cost share projects in the contributed fund and costs related to the acquisition of operating materials and supplies in the revolving fund are also recorded as other expenses not requiring budgetary resources. In FY 2014 and FY 2013 costs associated with fish mitigation studies in the general fund are also recorded as other expenses not requiring budgetary resources.

NOTE 19. FUNDS FROM DEDICATED COLLECTIONS

($ in thousands)

BALANCE SHEET	FY 2014				
As of September 30	Maintenance Fund	Contributed Fund	Other Funds	Eliminations	Consolidated Total
ASSETS					
Fund balance with Treasury	$ 117,038	$ 1,084,706	$ 91,475	$ 6,526,558	$ 7,819,777
Investments	8,407,541	-	-	-	8,407,541
Accounts and Interest Receivable	573,564	4,915	1,582	(97,389)	482,672
Other Assets	618,075	30,496	715	-	649,286
Total Assets	$ 9,716,218	$ 1,120,117	$ 93,772	$ 6,429,169	$ 17,359,276
LIABILITIES and NET POSITION					
Accounts Payable and Other Liabilities	201,067	1,121,417	52	(196,522)	1,126,014
Total Liabilities	$ 201,067	$ 1,121,417	$ 52	$ (196,522)	$ 1,126,014
Cumulative Results of Operations	9,515,151	(1,300)	93,720	6,625,691	16,233,262
Total Liabilities and Net Position	$ 9,716,218	$ 1,120,117	$ 93,772	$ 6,429,169	$ 17,359,276
STATEMENT OF NET COST					
Year ended September 30					
Program Costs	$ 45,417	$ 342,069	$ 13,093	$ (45,265)	$ 355,314
Less Earned Revenue	-	(379,365)	-	58	(379,307)
Net Program Costs	$ 45,417	$ (37,296)	$ 13,093	$ (45,207)	$ (23,993)
Net Cost of Operations	$ 45,417	$ (37,296)	$ 13,093	$ (45,207)	$ (23,993)
STATEMENT OF CHANGES IN NET POSITION					
Year ended September 30					
Net Position Beginning of the Period	$ 9,080,445	$ 2,001	$ 94,019	$ 5,269,485	$ 14,445,950
Net Cost of Operations	45,417	(37,296)	13,093	(45,207)	(23,993)
Budgetary Financing Sources	521,022	-	13,247	1,224,871	1,759,140
Other Financing Sources	(40,899)	(40,597)	(453)	86,128	4,179
Change in Net Position	$ 434,706	$ (3,301)	$ (299)	$ 1,356,206	$ 1,787,312
Net Position End of Period	$ 9,515,151	$ (1,300)	$ 93,720	$ 6,625,691	$ 16,233,262

($ in thousands)

BALANCE SHEET	FY 2013				
As of September 30	Maintenance Fund	Contributed Fund	Other Funds	Eliminations	Consolidated Total
ASSETS					
Fund balance with Treasury	$ 107,468	$ 1,093,463	$ 91,372	$ 5,269,034	$ 6,561,337
Investments	7,877,544	-	-	-	7,877,544
Accounts and Interest Receivable	448,808	3,941	1,795	(2,945)	451,599
Other Assets	659,626	30,041	959	-	690,626
Total Assets	$ 9,093,446	$ 1,127,445	$ 94,126	$ 5,266,089	$ 15,581,106
LIABILITIES and NET POSITION					
Accounts Payable and Other Liabilities	13,001	1,125,444	107	(3,396)	1,135,156
Total Liabilities	$ 13,001	$ 1,125,444	$ 107	$ (3,396)	$ 1,135,156
Cumulative Results of Operations	9,080,445	2,001	94,019	5,269,485	14,445,950
Total Liabilities and Net Position	$ 9,093,446	$ 1,127,445	$ 94,126	$ 5,266,089	$ 15,581,106
STATEMENT OF NET COST					
Year ended September 30					
Program Costs	$ 145,272	$ 340,939	$ 15,986	$ (53,398)	$ 448,799
Less Earned Revenue	-	(366,944)	-	145	(366,799)
Net Program Costs	$ 145,272	$ (26,005)	$ 15,986	$ (53,253)	$ 82,000
Net Cost of Operations	$ 145,272	$ (26,005)	$ 15,986	$ (53,253)	$ 82,000
STATEMENT OF CHANGES IN NET POSITION					
Year ended September 30					
Net Position Beginning of the Period	$ 8,377,235	$ 4,847	$ 87,116	$ 4,241,254	$ 12,710,452
Net Cost of Operations	145,272	(26,005)	15,986	(53,253)	82,000
Budgetary Financing Sources	848,553	-	24,571	942,539	1,815,663
Other Financing Sources	(71)	(28,851)	(1,682)	32,439	1,835
Change in Net Position	$ 703,210	$ (2,846)	$ 6,903	$ 1,028,231	$ 1,735,498
Net Position End of Period	$ 9,080,445	$ 2,001	$ 94,019	$ 5,269,485	$ 14,445,950

Other Disclosures

All intragovernmental activity within USACE between funds from dedicated collections and other funds has been eliminated from the consolidated total column.

USACE funds from dedicated collections are presented by fund type vice individual fund due to the volume of individual funds from dedicated collections based on SFFAS No. 27, *Identifying and Reporting Earmarked Funds* as amended by SFFAS No. 43, *Funds from Dedicated Collections: Amending Statement of Federal Financial Accounting Standards 27, Identifying and Reporting Earmarked Funds.*

There has been no change in legislation during or subsequent to the reporting periods and before the issuance of the financial statements that significantly changes the purpose of these funds or that redirects a material portion of the accumulated balances.

USACE has the following Funds from Dedicated Collections as of September 30, 2014 and 2013:

Maintenance Fund

Harbor Maintenance Trust Fund (HMTF). This fund was established by Title XIV of the *Water Resources Development Act (the Act) of 1986*, Public Law 99-662. The HMTF is authorized to recover 100% of USACE eligible operation and maintenance (O&M) expenditures for the maintenance of commercial navigation in harbors and channels as well as 100% of the O&M cost of St. Lawrence Seaway by the St. Lawrence Seaway Development Corporation. As provided in *the Act*, amounts in HMTF shall be available for making expenditures to carry out the functions specified in *the Act* and for the payment of all expenses of administration incurred by the U.S. Treasury, USACE, and the Department of Commerce. Collections are made into the trust fund from fees assessed on port use associated with imports, imported merchandise admitted into a foreign trade zone, passengers, and movements of cargo between domestic ports. The collections are invested and investment activity is managed by BFS. The revenue is received from the public and is an inflow of resources to the government. This fund utilizes receipt and expenditure accounts in accounting for and reporting the fund.

Contributed Fund

Rivers and Harbors Contributed and Advance Funds. These funds are authorized by Title 33 United States Code (USC) 701h, 702f, and 703, establishes funding to construct, improve, and maintain levees, water outlets, flood control, debris removal, rectification and enlargement of river channels, etc., in the course of flood control and river/harbor maintenance. Whenever any state or political subdivision thereof shall offer to advance funds for a flood control project duly adopted and authorized by law, the Secretary may at his discretion, receive such funds and expend the same in the immediate prosecution of such work. Advances are from the public and are inflows of resources to the government. This fund utilizes both receipt and expenditure accounts in accounting for and reporting the fund.

Other Funds

Coastal Wetlands Restoration Trust Fund. This fund is authorized by Title 16 USC 3951-3956. This title grants parallel authority to USACE, along with the Environmental Protection Agency, and the Fish and Wildlife Service to work with the state of Louisiana to develop, review, evaluate, and approve a plan that is proposed to achieve a goal of "no net loss of wetlands" in coastal Louisiana. USACE is also responsible for allocating the funds from dedicated collections among the named task force members. Federal contributions of the dedicated collections are established at 75% of project costs or 85% if the state has an approved Coastal Wetlands Conservation Plan. This fund is an expenditure account and receives funding transfers from the Sport Fish Restoration and Boating Trust Fund, a trust with collections from excise taxes on fishing equipment, motorboat and small engine fuels, import duties, and interest.

Inland Waterways Trust Fund (IWTF). This fund is authorized by Title 26 USC 9506. The title made IWTF available for USACE expenditures for navigation, construction, and rehabilitation projects on inland waterways. Collections into the trust fund are from excise taxes on fuel used in commercial transportation on inland waterways. The revenue is received from the public and is an inflow of resources to the government. The collections are invested and investment activity is managed by the BFS. This fund utilizes receipt and expenditure accounts in accounting for and reporting the fund.

Special Recreation Use Fees. Title 16 USC 4601-6a granted USACE the authority to charge and collect fair and equitable Special Recreation Use Fees at recreation facilities and campgrounds located at lakes or reservoirs under the jurisdiction of USACE. Types of allowable fees include daily use fees, admission fees, recreational fees, annual pass fees, and other permit type fees. The revenue is received from the public and is an inflow of resources to the government. The purpose of the fund is to maintain and operate the recreation and camping facilities.

Hydraulic Mining in California. Debris, Title 33 USC 683 states that those operating hydraulic mines through which debris flows in part or in whole to a body restrained by a dam or other work erected by the California Debris Commission shall pay a tax as determined by the Federal Power Commission, now known as the Federal Energy Regulatory Commission (FERC). The tax is paid annually on a date fixed by FERC. Taxes imposed under this code are collected and then expended under the supervision of USACE and the direction of the Department of the Army. The revenue is received from the public and is an inflow of resources to the government. The purpose of the fund is for repayment of funds advanced by the Federal Government or other agencies for construction, restraining works, settling reservoirs, and maintenance.

Payments to States. Flood Control Act of 1954, Title 33 USC 701c-3, established that 75% of all funds received and deposited from the leasing of lands acquired by the U.S. for flood control, navigation and allied purposes, including the development of hydroelectric power, shall be returned to the state in which the property is located. USACE collects lease receipts into a receipt account. The revenue is received from the public and is an inflow of resources to the government. Funds are appropriated in the amount of 75% of the receipts in the following fiscal year and disbursed to the states. The funds may be expended by the states for the benefit of public schools and public roads of the county, or counties, in which such property is situated, or for defraying any of the expense of county government.

Maintenance and Operation of Dams and Other Improvements of Navigable Waters. Title 16 USC 803f, 810, states that whenever a reservoir or other improvement is constructed by the U.S., FERC shall assess charges against any licensee directly benefited, and any amount so assessed shall be paid into the U.S. Treasury. The title further states that all charges arising from other licenses, except those charges established by FERC for purpose of administrative reimbursement, shall be paid to the U.S. Treasury from which specific allocations will be made. From the specific allocations, 50% of charges from all other licenses is reserved and appropriated as a special fund in the U.S. Treasury. This special fund is to be expended under the direction of the Secretary of the Army (Secretary) for the maintenance and operation of dams and other navigation structures that are owned by the U.S. or for construction, maintenance, or operation of headwater or other improvements of U.S. navigable waters. The revenue is received from the public and is an inflow of resources to the government.

Fund for Nonfederal Use of Disposal Facilities (for dredged material). This fund was established by Title 33 USC 2326a. This title provides that the Secretary may permit the use of any dredged material disposal facility under the jurisdiction of, or managed by, the Secretary by a nonfederal interest if the Secretary determines that such use will not reduce the availability of the facility for project purposes. The Secretary may impose fees to recover capital, operation and maintenance costs associated with such use. Any monies received through collection of fees under this law shall be available to the Secretary, and shall be used by the Secretary, for the operation and maintenance of the disposal facility from which the fees were collected. The revenue is received from the public and is an inflow of resources to the government.

Special funds utilize both receipt and expenditure accounts in accounting for and reporting the fund.

NOTE 20. LEASES

As of September 30
($ in thousands)

2014	Asset Category: Building Space	Other	Total
ENTITY AS LESSEE Operating Leases			
Future Payments Due			
Fiscal Year			
2015	$ 77,039	$ 49	$ 77,088
2016	77,771	39	77,810
2017	78,770	22	78,792
2018	79,621	18	79,639
2019	80,223	10	80,233
After 5 Years	420,996	47	421,043
Total Future Lease Payments Due	$ 814,420	$ 185	$ 814,605

As of September 30, 2014, USACE has various non-cancelable operating leases mainly for office space and storage facilities maintained by many USACE Districts. Many of these leases contain clauses to reflect inflation and renewal options. USACE has no assets under capital lease.

As of September 30
($ in thousands)

	2014 Easements
ENTITY AS LESSOR	
Operating Leases	
2015	$ 7,753
2016	6,881
2017	5,893
2018	4,810
2019	3,226
After 5 Years	14,074
Total Future Lease Payments	$ 42,637

USACE also has a small volume of operating leases for mostly easements. Private companies and individuals lease easements from USACE to operate marinas, restaurants, and other businesses on USACE lands.

FY 2014 REQUIRED SUPPLEMENTARY STEWARDSHIP INFORMATION (RSSI)

Unaudited, See Accompanying Auditor's Report

NONFEDERAL PHYSICAL PROPERTY
Yearly Investment in Physical Property Owned by State and Local Governments
For the Current and Four Preceding Fiscal Years ended September 30

(In millions of Dollars)

Categories	FY 2014	FY 2013	FY 2012	FY 2011	FY 2010
Transferred Assets:					
1. National Defense Mission Related	$1,092	$1,356	$1,413	$2,273	$2,104
Funded Assets:					
2. National Defense Mission Related	$0	$0	$0	$0	$0
Total	$1,092	$1,356	$1,413	$2,273	$2,104

The U.S. Army Corps of Engineers (USACE) incurs investments in Nonfederal Physical Property for construction physical property owned by state and local governments. USACE has the authority to enter into cost sharing agreements with nonfederal sponsors which are governed under numerous Water Resources Development Acts starting with the Act of 1986.

Investment values included in this report are based on Nonfederal Physical Property expenditures.

FY 2014 REQUIRED SUPPLEMENTARY INFORMATION (RSI)

Unaudited, See Accompanying Auditor's Report

As of September 30, 2014

Real Property Deferred Maintenance and Repairs

Deferred maintenance and repair is defined as maintenance and repairs not performed when it should have been or was scheduled to be but delayed for a future period. Deferred maintenance and repair for FY 2014 was $3,261 million for Other Structures. Operations managers identify the operation and maintenance (O&M) needs at each project in the Civil Works inventory. The O&M needs are based on inspections of project features, engineering analyses and historical experience.

Heritage Asset Condition

Condition of heritage assets is based on factors such as quality of design and construction, location, adequacy of maintenance performed, and continued usefulness. The USACE's heritage assets overall condition is deemed to be fair; therefore, no significant deferred maintenance has been assessed.

Disaggregated Schedule of Budgetary Resources by Major Fund

Statement of Federal Financial Accounting Standard 7 *Accounting for Revenue and Other Financial Sources and Concepts for Reconciling Budgetary and Financial Accounting* requires information be presented by major budget account. USACE – Civil Works presents information by major fund which USACE believes provides a better presentation, as the USACE – Civil Works is a single program and aligns with our funding and management of the program.

COMBINED STATEMENT OF BUDGETARY RESOURCES

For the year ended September 30, 2014 (in thousands)

	FUSRAP	Special Funds	Trust Funds	Borrowing Authority	Revolving Funds
Budgetary Resources					
Unobligated balance brought forward, October 1	$ 6,436	$ 11,082	$ 256,257	$ 4	$ 616,610
Recoveries of prior year unpaid obligation	12,822	33	11,782		85,401
Other changes in unobligated balance					
Unobligated balance from prior year budget authority, net	19,258	11,115	268,039	4	702,011
Appropriations (discretionary and mandatory)	103,500	20,410	1,244,269		
Spending Authority from offsetting collections	4,093	14	-	9	7,803,926
Total Budgetary Resources	$ 126,851	$ 31,539	$ 1,512,308	$ 13	$ 8,505,937
Status of Budgetary Resources:					
Obligations Incurred	$ 119,312	$ 11,954	$ 1,225,323	$ 9	$ 7,716,478
Unobligated balance, end of year					
Apportioned	7,539	19,585	286,985		
Exempt from Apportionment				4	789,459
Unapportioned					
Unobligated balance brought forward, end of year	7,539	19,585	286,985	4	789,459
Total Budgetary Resources	$ 126,851	$ 31,539	$ 1,512,308	$ 13	$ 8,505,937
Change in Obligated Balance:					
Unpaid obligations:					
Unpaid obligations, brought forward, October 1 (gross)	$ 64,900	$ 1,485	$ 211,033	$ -	$ 1,199,144
Obligations incurred	119,312	11,954	1,225,323	9	7,716,478
Outlays (gross) (-)	(98,654)	(13,334)	(1,129,006)	(9)	(7,678,710)
Recoveries of prior year unpaid obligations (-)	(12,822)	(33)	(11,782)	-	(85,401)
Unpaid Obligations, end of year (gross)	72,736	72	295,568	-	1,151,511
Uncollected payments:					
Uncollected payments, Federal sources, brought, October 1	(2,240)				(131,206)
Change in uncollected customer payments from Federal Sources (+ or -)	(928)				(41,200)
Uncollected payments, Federal sources, end of year (-)	(3,168)	-	-	-	(172,406)
Obligated balance, start of year (net)	62,660	1,485	211,033	-	1,067,938
Obligated balance, end of year (net)	$ 69,568	$ 72	$ 295,568	$ -	$ 979,105
Budget Authority and Outlays, Net:					
Budget authority, gross (discretionary and mandatory)	$ 107,593	$ 20,424	$ 1,244,269	$ 9	$ 7,803,926
Actual offsetting collections (discretionary and mandatory) (-)	(3,165)	(14)		(238)	(7,765,318)
Change in uncollected customer payments from Federal Sources (discretionary and mandatory) (+ or -)	(928)				(41,200)
Budget Authority, net (discretionary and mandatory)	$ 103,500	$ 20,410	$ 1,244,269	$ (229)	$ (2,592)
Outlays, gross (discretionary and mandatory)	98,654	13,334	1,129,006	9	7,678,710
Actual offsetting collections (discretionary and mandatory) (-)	(3,165)	(14)		(238)	(7,765,318)
Outlays, net (discretionary and mandatory)	95,489	13,320	1,129,006	(229)	(86,608)
Distributed offsetting receipts		(57,395)			
Agency Outlays, net (discretionary and mandatory)	$ 95,489	$ (44,075)	$ 1,129,006	$ (229)	$ (86,608)

The accompanying notes are an integral part of these financial statements.

US Army Corps of Engineers - Civil Works

COMBINED STATEMENT OF BUDGETARY RESOURCES

For the year ended September 30, 2014 (in thousands)

	Contributed Funds	General Funds	FUSRAP ARRA	General ARRA	2014 Combined
Budgetary Resources					
Unobligated balance brought forward, October 1	$ 678,686	$ 10,788,508	$ -	$ 4,194	$ 12,361,777
Recoveries of prior year unpaid obligation	7,216	241,781	-	2,948	361,983
Other changes in unobligated balance					-
Unobligated balance from prior year budget authority, net	685,902	11,030,289	-	7,142	12,723,760
Appropriations (discretionary and mandatory)	352,140	4,189,953			5,910,272
Spending Authority from offsetting collections	1,156	2,382,575		176	10,191,949
Total Budgetary Resources	$ 1,039,198	$ 17,602,817	$ -	$ 7,318	$ 28,825,981
Status of Budgetary Resources:					
Obligations Incurred	$ 439,515	$ 8,325,744	$ -	$ 256	$ 17,838,591
Unobligated balance, end of year					
Apportioned		9,251,827		-	9,565,936
Exempt from Apportionment	599,683	24,637			1,413,783
Unapportioned		609		7,062	7,671
Unobligated balance brought forward, end of year	599,683	9,277,073	-	7,062	10,987,390
Total Budgetary Resources	$ 1,039,198	$ 17,602,817	$ -	$ 7,318	$ 28,825,981
Change in Obligated Balance:					
Unpaid obligations:					
Unpaid obligations, brought forward, October 1 (gross)	$ 414,893	$ 5,792,873	$ -	$ 129,697	$ 7,814,025
Obligations incurred	439,515	8,325,744	-	256	17,838,591
Outlays (gross) (-)	(369,651)	(7,783,054)	-	(79,170)	(17,151,588)
Recoveries of prior year unpaid obligations (-)	(7,216)	(241,781)		(2,948)	(361,983)
Unpaid Obligations, end of year (gross)	477,541	6,093,782	-	47,835	8,139,045
Uncollected payments:					
Uncollected payments, Federal sources, brought, October 1	(115)	(1,804,941)		(2,840)	(1,941,342)
Change in uncollected customer payments from Federal Sources (+ or -)	111	81,663		1,555	41,201
Uncollected payments, Federal sources, end of year (-)	(4)	(1,723,278)	-	(1,285)	(1,900,141)
Obligated balance, start of year (net)	414,778	3,987,932	-	126,857	5,872,683
Obligated balance, end of year (net)	$ 477,537	$ 4,370,504	$ -	$ 46,550	$ 6,238,904
Budget Authority and Outlays, Net:					
Budget authority, gross (discretionary and mandatory)	$ 353,296	$ 6,572,528	$	$ 176	$ 16,102,221
Actual offsetting collections (discretionary and mandatory) (-)	(1,267)	(2,361,162)		(1,731)	(10,132,895)
Change in uncollected customer payments from Federal Sources (discretionary and mandatory) (+ or -)	111	81,663		1,555	41,201
Budget Authority, net (discretionary and mandatory)	$ 352,140	$ 4,293,029	$ -	$ -	$ 6,010,527
Outlays, gross (discretionary and mandatory)	369,651	7,783,054	-	79,170	17,151,588
Actual offsetting collections (discretionary and mandatory) (-)	(1,267)	(2,361,162)		(1,731)	(10,132,895)
Outlays, net (discretionary and mandatory)	368,384	5,421,892	-	77,439	7,018,693
Distributed offsetting receipts	(359,627)	(79,274)			(496,296)
Agency Outlays, net (discretionary and mandatory)	$ 8,757	$ 5,342,618	$ -	$ 77,439	$ 6,522,397

The accompanying notes are an integral part of these financial statements.

COMBINED STATEMENT OF BUDGETARY RESOURCES

For the year ended September 30, 2013 (in thousands)

	FUSRAP	Special Funds	Trust Funds	Borrowing Authority	Revolving Funds
Budgetary Resources					
Unobligated balance brought forward, October 1	$ 3,938	$ 3,241	$ 191,236	$ 4	$ 502,875
Recoveries of prior year unpaid obligation	576	126	57,849	-	92,642
Other changes in unobligated balance	-	-	-	-	-
Unobligated balance from prior year budget authority, net	4,514	3,367	249,085	4	595,517
Appropriations (discretionary and mandatory)	99,921	18,655	976,063	-	-
Spending Authority from offsetting collections	20,569	3,062	-	31	8,164,050
Total Budgetary Resources	$ 125,004	$ 25,084	$ 1,225,148	$ 35	$ 8,759,567
Status of Budgetary Resources:					
Obligations Incurred	$ 118,568	$ 14,002	$ 968,891	$ 31	$ 8,142,957
Unobligated balance, end of year					
Apportioned	6,436	11,082	256,242	-	-
Exempt from Apportionment	-	-	-	4	616,610
Unapportioned	-	-	15	-	-
Unobligated balance brought forward, end of year	6,436	11,082	256,257	4	616,610
Total Budgetary Resources	$ 125,004	$ 25,084	$ 1,225,148	$ 35	$ 8,759,567
Change in Obligated Balance:					
Unpaid obligations:					
Unpaid obligations, brought forward, October 1 (gross)	$ 48,404	$ 5,799	$ 303,121	$ -	$ 1,216,531
Obligations incurred	118,568	14,002	968,891	31	8,142,957
Outlays (gross) (-)	(101,496)	(18,190)	(1,003,130)	(31)	(8,067,702)
Recoveries of prior year unpaid obligations (-)	(576)	(126)	(57,849)	-	(92,642)
Unpaid Obligations, end of year (gross)	64,900	1,485	211,033	-	1,199,144
Uncollected payments:					
Uncollected payments, Federal sources, brought, October 1	(3,253)	-	-	-	(139,965)
Change in uncollected customer payments from Federal Sources (+ or -)	1,013	-	-	-	8,759
Uncollected payments, Federal sources, end of year (-)	(2,240)	-	-	-	(131,206)
Obligated balance, start of year (net)	45,151	5,799	303,121	-	1,076,566
Obligated balance, end of year (net)	$ 62,660	$ 1,485	$ 211,033	$ -	$ 1,067,938
Budget Authority and Outlays, Net:					
Budget authority, gross (discretionary and mandatory)	$ 120,490	$ 21,716	$ 976,063	$ 31	$ 8,164,050
Actual offsetting collections (discretionary and mandatory) (-)	(21,582)	(3,061)	-	(2,583)	(8,172,809)
Change in uncollected customer payments from Federal Sources (discretionary and mandatory) (+ or -)	1,013	-	-	-	8,759
Budget Authority, net (discretionary and mandatory)	$ 99,921	$ 18,655	$ 976,063	$ (2,552)	$ -
Outlays, gross (discretionary and mandatory)	101,496	18,190	1,003,130	31	8,067,702
Actual offsetting collections (discretionary and mandatory) (-)	(21,582)	(3,061)	-	(2,583)	(8,172,809)
Outlays, net (discretionary and mandatory)	79,914	15,129	1,003,130	(2,552)	(105,107)
Distributed offsetting receipts	-	(66,190)	-	-	-
Agency Outlays, net (discretionary and mandatory)	$ 79,914	$ (51,061)	$ 1,003,130	$ (2,552)	$ (105,107)

The accompanying notes are an integral part of these financial statements.

US Army Corps of Engineers - Civil Works

COMBINED STATEMENT OF BUDGETARY RESOURCES

For the year ended September 30, 2013 (in thousands)

	Contributed Funds	General Funds	FUSRAP ARRA	General ARRA	2013 Combined
Budgetary Resources					
Unobligated balance brought forward, October 1	$ 663,719	$ 7,231,123	$ -	$ 13,941	$ 8,610,077
Recoveries of prior year unpaid obligation	8,919	223,452	-	31,786	415,350
Other changes in unobligated balance	-	(32)	-	-	(32)
Unobligated balance from prior year budget authority, net	672,638	7,454,543	-	45,727	9,025,395
Appropriations (discretionary and mandatory)	484,802	8,852,304	-	-	10,431,745
Spending Authority from offsetting collections	1,183	2,637,589	-	(4,648)	10,821,836
Total Budgetary Resources	$ 1,158,623	$ 18,944,436	$ -	$ 41,079	$ 30,278,976
Status of Budgetary Resources:					
Obligations Incurred	$ 479,938	$ 8,155,927	$ -	$ 36,885	$ 17,917,199
Unobligated balance, end of year					
Apportioned	-	10,764,279	-	-	11,038,039
Exempt from Apportionment	678,686	24,217	-	-	1,319,517
Unapportioned	-	12	-	4,194	4,221
Unobligated balance brought forward, end of year	678,686	10,788,508	-	4,194	12,361,777
Total Budgetary Resources	$ 1,158,624	$ 18,944,435	$ -	$ 41,079	$ 30,278,976
Change in Obligated Balance:					
Unpaid obligations:					
Unpaid obligations, brought forward, October 1 (gross)	$ 315,613	$ 6,170,944	$ 39	$ 314,281	$ 8,374,732
Obligations incurred	479,938	8,155,927	-	36,885	17,917,199
Outlays (gross) (-)	(371,739)	(8,310,546)	(39)	(189,683)	(18,062,556)
Recoveries of prior year unpaid obligations (-)	(8,919)	(223,452)	-	(31,786)	(415,350)
Unpaid Obligations, end of year (gross)	414,893	5,792,873	-	129,697	7,814,025
Uncollected payments:					
Uncollected payments, Federal sources, brought, October 1	(113)	(2,018,561)	-	(14,835)	(2,176,727)
Change in uncollected customer payments from Federal Sources (+ or -)	(2)	213,620	-	11,995	235,385
Uncollected payments, Federal sources, end of year (-)	(115)	(1,804,941)	-	(2,840)	(1,941,342)
Obligated balance, start of year (net)	315,500	4,152,383	39	299,446	6,198,005
Obligated balance, end of year (net)	$ 414,778	$ 3,987,932	$ -	$ 126,857	$ 5,872,683
Budget Authority and Outlays, Net:					
Budget authority, gross (discretionary and mandatory)	$ 485,985	$ 11,489,894	$ -	$ (4,648)	$ 21,253,581
Actual offsetting collections (discretionary and mandatory) (-)	(1,181)	(2,754,904)	-	(7,347)	(10,963,467)
Change in uncollected customer payments from Federal Sources (discretionary and mandatory) (+ or -)	(2)	213,620	-	11,995	235,385
Budget Authority, net (discretionary and mandatory)	$ 484,802	$ 8,948,610	$ -	$ -	$ 10,525,499
Outlays, gross (discretionary and mandatory)	371,739	8,310,546	39	189,683	18,062,556
Actual offsetting collections (discretionary and mandatory) (-)	(1,181)	(2,754,904)	-	(7,347)	(10,963,467)
Outlays, net (discretionary and mandatory)	370,558	5,555,642	39	182,336	7,099,089
Distributed offsetting receipts	(484,802)	(255,714)	-	-	(806,706)
Agency Outlays, net (discretionary and mandatory)	$ (114,244)	$ 5,299,928	$ 39	$ 182,336	$ 6,292,383

The accompanying notes are an integral part of these financial statements.

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INSPECTOR GENERAL
DEPARTMENT OF DEFENSE
4800 MARK CENTER DRIVE
ALEXANDRIA, VIRGINIA 22350-1500

November 14, 2014

MEMORANDUM FOR UNDER SECRETARY OF DEFENSE (COMPTROLLER)/
CHIEF FINANCIAL OFFICER,
U.S. ARMY CORPS OF ENGINEERS, CIVIL WORKS

SUBJECT: Independent Auditor's Report on the U.S. Army Corps of Engineers, Civil Works, FY 2014 and FY 2013 Basic Financial Statements (Report No. DODIG-2015-035)

We contracted with the independent public accounting firm of KPMG, LLP, (KPMG) to audit the U.S. Army Corps of Engineers, Civil Works (USACE CW) FY 2014 Basic Financial Statements as of September 30, 2014, and 2013, and for the years then ended and provide a report on internal controls over financial reporting and compliance with laws and regulations. The contract required that KPMG conduct the audit in accordance with U.S. generally accepted government auditing standards (GAGAS), Office of Management and Budget audit guidance, and the Government Accountability Office/President's Council on Integrity and Efficiency "Financial Audit Manual," July 2008. KPMG's Independent Auditor's Report is attached.

KPMG's audit resulted in an unmodified opinion. KPMG concluded that USACE CW Basic Financial Statements as of September 30, 2014, and 2013, and for the years then ended are presented fairly, in all material respects, in conformity with U.S. generally accepted accounting principles. KPMG's report also discusses three significant deficiencies related to USACE CW internal controls and two instances of noncompliance with laws and regulations.

In connection with the contract, we reviewed KPMG's report and related documentation and discussed the audit results with KPMG representatives. Our review, as differentiated from an audit in accordance with GAGAS, was not intended to enable us to express, and we do not express, an opinion on USACE CW's financial statements, conclusions about the effectiveness of internal control, conclusions as to whether USACE CW financial systems substantially complied with the "Federal Financial Management Improvement Act of 1996," or conclusions on whether USACE CW

complied with laws and regulations. KPMG is responsible for the attached report, dated November 12, 2014, and the conclusions expressed in the report. However, our review disclosed no instances where KPMG did not comply, in all material respects, with GAGAS.

We appreciate the courtesies extended to the staff. Please direct questions to me at (703) 601-5945.

Lorin T. Venable

Lorin T. Venable, CPA
Assistant Inspector General
Financial Management and Reporting

Attachment: As stated

KPMG LLP
Suite 12000
1801 K Street, NW
Washington, DC 20006

Independent Auditors' Report

Commanding General, Chief of Engineers,
United States Army Corps of Engineers – Civil Works; and,
United States Department of Defense Inspector General:

Report on the Financial Statements

We have audited the accompanying consolidated financial statements of the United States Army Corps of Engineers – Civil Works (USACE – Civil Works), which comprise the consolidated balance sheets as of September 30, 2014 and 2013, and the related consolidated statements of net cost, consolidated statements of changes in net position, and combined statements of budgetary resources for the years then ended, and the related notes to the consolidated financial statements (hereinafter referred to as "consolidated financial statements").

Management's Responsibility for the Financial Statements

Management is responsible for the preparation and fair presentation of these consolidated financial statements in accordance with U.S. generally accepted accounting principles; this includes the design, implementation, and maintenance of internal control relevant to the preparation and fair presentation of consolidated financial statements that are free from material misstatement, whether due to fraud or error.

Auditors' Responsibility

Our responsibility is to express an opinion on these consolidated financial statements based on our audits. We conducted our audits in accordance with auditing standards generally accepted in the United States of America; the standards applicable to financial audits contained in *Government Auditing Standards* issued by the Comptroller General of the United States; and Office of Management and Budget (OMB) Bulletin Number (No.) 14-02, *Audit Requirements for Federal Financial Statements*. Those standards and OMB Bulletin No. 14-02 require that we plan and perform the audit to obtain reasonable assurance about whether the consolidated financial statements are free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the consolidated financial statements. The procedures selected depend on the auditors' judgment, including the assessment of the risks of material misstatement of the consolidated financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the entity's preparation and fair presentation of the consolidated financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the entity's internal control. Accordingly, we express no such opinion. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of significant accounting estimates made by management, as well as evaluating the overall presentation of the consolidated financial statements.

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinion.

Opinion on the Financial Statements

In our opinion, the consolidated financial statements referred to above present fairly, in all material respects, the financial position of the USACE – Civil Works as of September 30, 2014 and 2013, and its net costs, changes in net position, and budgetary resources for the years then ended in accordance with U.S. generally accepted accounting principles.

Other Matters

Required Supplementary Information

U.S. generally accepted accounting principles require that the information in the Management's Discussion and Analysis, Required Supplementary Information, and Required Supplementary Stewardship Information sections be presented to supplement the basic consolidated financial statements. Such information, although not a part of the basic consolidated financial statements, is required by the Federal Accounting Standards Advisory Board who considers it to be an essential part of financial reporting for placing the basic consolidated financial statements in an appropriate operational, economic, or historical context. We have applied certain limited procedures to the required supplementary information in accordance with auditing standards generally accepted in the United States of America, which consisted of inquiries of management about the methods of preparing the information and comparing the information for consistency with management's responses to our inquiries, the basic consolidated financial statements, and other knowledge we obtained during our audits of the basic consolidated financial statements. We do not express an opinion or provide any assurance on the information because the limited procedures do not provide us with sufficient evidence to express an opinion or provide any assurance.

Other Information

Our audits were conducted for the purpose of forming an opinion on the basic consolidated financial statements as a whole. The Message from the Assistant Secretary of the Army (Civil Works) and Message from the USACE Chief Financial Officer are presented for purposes of additional analysis and are not a required part of the basic consolidated financial statements.

The Message from the Assistant Secretary of the Army (Civil Works) and Message from the USACE Chief Financial Officer have not been subjected to the auditing procedures applied in the audit of the basic consolidated financial statements, and accordingly, we do not express an opinion or provide any assurance on them.

Other Reporting Required by *Government Auditing Standards*

Internal Control Over Financial Reporting

In planning and performing our audit of the consolidated financial statements as of and for the year ended September 30, 2014, we considered the USACE – Civil Works' internal control over financial reporting (internal control) to determine the audit procedures that are appropriate in the circumstances

KPMG

for the purpose of expressing our opinion on the consolidated financial statements, but not for the purpose of expressing an opinion on the effectiveness of the USACE – Civil Works' internal control. Accordingly, we do not express an opinion on the effectiveness of the USACE – Civil Works' internal control. We did not test all internal controls relevant to operating objectives as broadly defined by the *Federal Managers' Financial Integrity Act of 1982*.

A deficiency in internal control exists when the design or operation of a control does not allow management or employees, in the normal course of performing their assigned functions, to prevent, or detect and correct, misstatements on a timely basis. A material weakness is a deficiency, or a combination of deficiencies, in internal control, such that there is a reasonable possibility that a material misstatement of the entity's financial statements will not be prevented, or detected and corrected, on a timely basis. A significant deficiency is a deficiency, or a combination of deficiencies, in internal control that is less severe than a material weakness, yet important enough to merit attention by those charged with governance.

Our consideration of internal control was for the limited purpose described in the first paragraph of this section and was not designed to identify all deficiencies in internal control that might be material weaknesses or significant deficiencies and therefore, material weaknesses or significant deficiencies may exist that were not identified. Given these limitations, during our audit we did not identify any deficiencies in internal control that we consider to be material weaknesses. However, we did identify certain deficiencies in internal control, described in Exhibit I as items A, B, and C, that we consider to be significant deficiencies.

Compliance and Other Matters

As part of obtaining reasonable assurance about whether the USACE – Civil Works' consolidated financial statements are free from material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements, noncompliance with which could have a direct and material effect on the determination of financial statement amounts, and certain provisions of other laws and regulations specified in OMB Bulletin No. 14-02. However, providing an opinion on compliance with those provisions was not an objective of our audit, and accordingly, we do not express such an opinion. The results of our tests disclosed an instance of noncompliance or other matters that is required to be reported under *Government Auditing Standards* or OMB Bulletin No. 14-02, and which is described in Exhibit II as item D.

We also performed tests of its compliance with certain provisions referred to in Section 803(a) of the *Federal Financial Management Improvement Act of 1996* (FFMIA). Providing an opinion on compliance with FFMIA was not an objective of our audit, and accordingly, we do not express such an opinion. The results of our tests of FFMIA disclosed instances, described in Exhibit II as item E, where the USACE – Civil Works' financial management systems did not substantially comply with the (1) Federal financial management systems requirements, (2) applicable Federal accounting standards, and (3) the United States Government Standard General Ledger at the transaction level.

USACE – Civil Works' Response to Findings

The USACE – Civil Works' responses to the findings identified in our audit are described in Exhibits I and II. The USACE – Civil Works' responses were not subjected to the auditing procedures applied in the audit of the consolidated financial statements and, accordingly, we express no opinion on the responses.

***Purpose of the Other Reporting Required by* Government Auditing Standards**

The purpose of the communication described in the Other Reporting Required by *Government Auditing Standards* section is solely to describe the scope of our testing of internal control and compliance and the result of that testing, and not to provide an opinion on the effectiveness of the USACE – Civil Works' internal control or compliance. Accordingly, this communication is not suitable for any other purpose.

KPMG LLP

Washington, DC
November 12, 2014

Exhibit I

UNITED STATES ARMY CORPS OF ENGINEERS – CIVIL WORKS
Significant Deficiencies
September 30, 2014

A. Financial Management Systems

The United States Army Corps of Civil Engineers – Civil Works (USACE – Civil Works) has not implemented adequate information technology controls to protect its financial management system as required by the Office of Management and Budget (OMB) Circular Number (No.) A-130, *Management of Federal Information Resources*. These conditions could affect the USACE – Civil Work's ability to prevent and detect unauthorized changes to financial information, control electronic access to sensitive information, and protect its information resources. Specifically, we identified the following:

<u>Access Control Weaknesses</u>
The USACE – Civil Works needs to strengthen access controls at the database and operating system levels. At the database level, the USACE – Civil Works did not fully implement a process for defining the activities considered unusual or suspicious, logging and monitoring these activities performed by user accounts granted administrative permissions (i.e. all access) at the database level, and preventing modification to the corresponding audit logs. At the operating system level, the USACE – Civil Works did not fully establish a process for defining the activities considered unusual or suspicious, logging and monitoring these activities performed by user accounts granted administrative permissions (i.e. all access) at the operating system level, and preventing modification to the corresponding audit logs. Additionally, the USACE – Civil Works did not fully implement an effective process for recertifying users with privileged access to the financial system production operating system environment. Lastly, for one (1) out of ten (10) privileged users selected for testing, the USACE – Civil Works did not retain documentation to support privileged access to the financial system production operating system environment and for one (1) out of ten (10) privileged users selected for testing (different user from the one noted above), they granted privileged access to the financial system production operating system environment without using the corresponding privileged access request form. By not implementing appropriate processes and procedures, there is an increased risk that financial data could be modified inappropriately, which may have an adverse impact on the availability and integrity of financial data.

<u>Configuration Management Control Weaknesses</u>
The USACE – Civil Works did not properly document configuration changes made to the operating system and database environments supporting the financial system. Specifically, for operating system (OS) and database (DB) patches, the USACE – Civil Works did not develop procedures for the levels of criticality for the patches and the different types of testing requirements for each level. Additionally, although the USACE – Civil Works performs limited testing on whether the operating system environment functions properly after the OS/DB patch is installed, this testing is not formally documented. This increases the risk that unauthorized and/or potentially unintended changes may be implemented into the production environment and could result in a loss of the financial system application program integrity and/or data being processed incorrectly.

These control weaknesses have occurred because the USACE – Civil Works had not allocated sufficient resources to develop and implement detailed access control and configuration management procedures and routinely monitor them to ensure adherence.

Subsequent to communication of the deficiencies noted above, the USACE – Civil Works initiated remediation activities to address several of these deficiencies during fiscal year (FY) 2014. Specifically,

the USACE – Civil Works began to formally define the activities considered unusual or suspicious at both the operating system and database levels, and they improved upon existing policies and procedures over the logging and monitoring of these activities at both of these technology layers. Additionally, the USACE – Civil Works initiated measures to prevent modification to the corresponding operating system and database audit logs. Lastly, the USACE – Civil Works updated their configuration management procedures to include levels of criticality for the operating system and database patches and they formally defined the minimum testing requirements for each level, thereby remediating the conditions noted during our audit.

As noted above, the USACE – Civil Works has taken meaningful steps to remediate the identified deficiencies, however continued effort and attention is needed to address the remaining weaknesses in the processes and procedures governing access controls and configuration management.

Recommendations

We recommend the USACE – Civil Works management improve the access controls over its financial information systems in order to help maintain logical security and protection of the information systems as follows:

1. Continue developing and formally implementing processes over logging and monitoring activities considered unusual or suspicious, as defined by management, at both the database and operating system levels. This should include formal guidelines for evidencing the review of the audit logs, including appropriate notations when issues are identified or follow-up actions are needed, based on the review.
2. Periodically reviewing the control measures implemented to prevent the modification/alteration of the database and operating system audit logs to determine that the individuals whose access is being logged do not have ability to modify the audit logs.
3. Continue enhancing the privileged user recertification process to include consideration for a complete and accurate listing of privileged users, including access permissions assigned to the users being reviewed and formally maintaining evidence of the review.

Management Response

The USACE – Civil Works concurs with the findings and will take corrective action to cure the significant deficiency.

B. Financial Oversight and Reporting

Maintaining effective financial oversight and reporting controls assist management to prevent, detect, and correct errors in a timely manner. In the performance of our FY 2014 procedures we identified deficiencies in budgetary accounting, financial reporting, and the processing/recording of journal vouchers which when aggregated could cause misstatements to the consolidated financial statements and related notes to the consolidated financial statements.

<u>Budgetary Accounting</u>

Our FY 2014 procedures identified deficiencies in internal controls over undelivered orders (UDO) balances (unliquidated obligations) and recoveries of prior year obligations (recoveries). Specifically, the USACE – Civil Works' internal controls, such as the tri-annual review, are not operating effectively to identify invalid, inaccurate, and/or unsupported UDO balances and recovery transactions and could misstate the UDO balances.

Exhibit I, continued

Financial Reporting
We noted deficiencies in internal controls related to accounting for and reporting heritage assets. The USACE – Civil Works did not review all of its historical assets for inclusion in the heritage asset listing to determine that they owned them. Specifically, the USACE – Civil Works included two heritage assets that they did not own on the heritage asset listing.

We noted the potential inappropriate inclusion of a deposit fund which created a reconciling item between the Standard Form 133s, *Reports on Budget Execution and Budgetary Resources* used in the preparation of the President's Budget and the FY 2014 USACE – Civil Works Statement of Budgetary Resources. Title 40 United States Code (USC) Section 9501 only provides the USACE – Civil Works immediate superintendence rather than ownership and operational authority over the deposit fund.

Preparation and Related Review and Approval of Journal Vouchers
We noted internal control deficiencies related to the completeness, existence, accuracy, obligations and rights and presentation of Defense Departmental Reporting System (DDRS) Journal Vouchers. Further, the USACE – Civil Works eliminated unreconciled variances by recording "unsupported" journal vouchers to reclassify amounts to complete the financial statement preparation process.

The U.S. Government Accountability Office's *Standards for Internal Control in the Federal Government*, Page 15, states that "transactions should be promptly recorded to maintain their relevance and value to management in controlling operations and making decisions. This applies to the entire process or life cycle of a transaction or event from the initiation and authorization through its final classification in summary records. In addition, control activities help to ensure that all transactions are completely and accurately recorded."

OMB Circular No. A-123, *Management's Responsibility for Internal Control,* states the following: "Management is responsible for developing and maintaining effective internal control. Effective internal control provides assurance that significant weaknesses in the design or operation of internal control, that could adversely affect the agency's ability to meet its objectives, would be prevented or detected in a timely manner."

Recommendations
We recommend the USACE – Civil Works management:

1. De-obligate invalid obligations in a timely manner (i.e., prior to fiscal year-end).
2. Update system posting logic to reflect proper accounting and recording of recovery transactions.
3. Strengthen policies and procedures for proper accounting and reporting for heritage assets and leases.
4. Investigate the deposit fund further and revise their accounting treatment of the deposit fund to be in accordance with the guidance provided under OMB Circular No. A-11.
5. Develop policies and procedures to enhance the internal controls over the completeness, existence, accuracy, rights and obligations, and presentation of journal vouchers and to identify and correct variances between federal expenses recorded in the DDRS trial balance and the trading partner activity associated with these expenses in a timely manner.

Management Response
The USACE – Civil Works concurs with the findings and will take corrective action to cure the significant deficiency.

C. General Property, Plant, and Equipment

Property, Plant & Equipment (PP&E) is the largest line item on the USACE – Civil Works financial statements. During our FY 2014 audit, we noted that the USACE – Civil Works has designed and implemented controls over PP&E throughout Civil Works Districts. However, continued improvements are needed to further prevent or detect potential misstatements on a timely basis. Our specific findings are as follows.

Management did not adjust the financial system in a timely manner for: (1) transactions management identified as those that should have been capitalized; (2) transactions that should have been expensed; and (3) transactions that should have been transferred from Construction in Progress (CIP) to completed PP&E. Additionally, the USACE – Civil Works did not properly account for PP&E at a specific long-term project as we noted certain completed equipment items that were placed in service were reported as CIP rather than completed PP&E and depreciated.

Communications within some Districts remain inconsistent and sometimes do not occur timely. In some cases, resource management does not follow-up with operations personnel regarding unusual PP&E transactions. In other cases, operations personnel were aware of certain PP&E transactions but did not communicate these PP&E transactions to resource management and did not consider the accounting impact to PP&E. Additionally, the USACE – Civil Works did not consistently perform or complete management reviews and reconciliations of PP&E that are designed to address these conditions.

Statement of Federal Financial Accounting Standards No. 6 *Accounting for Property, Plant, and Equipment*, provides guidance for Federal entities in accounting for PP&E transactions. The Army Corps of Engineers Regulations, Engineering Regulation (ER) 37-1-30, "Financial Administration – Accounting and Reporting," contains general asset accounting policies, including accounting for CIP and PP&E. These policies include Civil Works-specific items such as accounting for cost-shared projects, the Washington Aqueduct, projects that include a hydropower element, and the revolving fund. The USACE – Civil Works FY 2014 PP&E test plan titled "USACE Test Plan 1 PP&E FY2014" provides policies and procedures to strengthen controls over PP&E reconciliations and transactions.

Recommendations

We recommend that the USACE – Civil Works: (1) have all Districts fully implement controls related to PP&E (including CIP) management reviews, reconciliations, supporting documentation, timely recording in the financial system and communications, and (2) implement CIP controls designed to prevent capitalization and expense misclassification errors.

Management Response

The USACE – Civil Works concurs with the findings and will take corrective action to cure the significant deficiency.

Exhibit II

UNITED STATES ARMY CORPS OF ENGINEERS – CIVIL WORKS
Summary of Noncompliance
September 30, 2014

D. Federal Managers Financial Integrity Act of 1982 (FMFIA)

The Office of Management and Budget (OMB) Circular Number (No.) A-123, *Management's Responsibility for Internal Control,* requires agencies and Federal managers to (1) develop and implement management controls; (2) assess the adequacy of management controls; (3) identify needed improvements; (4) take corresponding corrective action; and (5) report annually on management controls.

We noted the United States Army Corps of Engineers - Civil Works (USACE – Civil Works) has not established effective systems, processes, policies and procedures to implement effective internal controls and has not conformed accounting systems to properly comply with FMFIA Sections 2 and 4 and OMB No. A-123 Appendix D.

Recommendations
We recommend the USACE – Civil Works management continue to improve its' FMFIA process by developing more thorough corrective action plans and correcting system limitations.

Management Response
The USACE – Civil Works concurs with the findings and will take corrective action to cure the non-compliance item.

E. Federal Financial Management Improvement Act (FFMIA) of 1996

Section 803(a) of FFMIA, requires that agency Federal financial management systems comply with (1) Federal accounting standards, (2) Federal system requirements, and (3) the United States Standard General Ledger (USSGL) at the transaction level. FFMIA emphasizes the need for agencies to have systems that can generate timely, reliable, and useful information with which to make informed decisions to ensure ongoing accountability. We noted that the USACE – Civil Works did not comply with the three requirements of FFMIA.

Recommendations
We recommend the USACE – Civil Works management improve its processes to comply with FFMIA by updating its financial management systems to comply with accounting principles, and comply with USSGL requirements and Federal system requirements.

Management Response
The USACE – Civil Works concurs with the findings and will take corrective action to cure the non-compliance item.

U.S.ARMY

We are interested in your feedback regarding the content of this report.
Please feel free to e-mail your comments to AAFS@hqda.army.mil or write to:

Department of the Army
Office of the Deputy Assistant Secretary of the Army
(Financial Management and Comptroller)

Office of the Financial Reporting Directorate
Room 3A312, 109 Army Pentagon
Washington, DC 20310-0109

Additional copies of this report can be obtained by sending a written request to the e-mail or mailing address listed above.
You may also view this document at: *http://www.asafm.army.mil/fo/fod/cfo/cfo.asp*

THE SOLDIER'S CREED

I am an American Soldier.
I am a Warrior and a member of a team.
I serve the people of the United States
and live the Army Values.

I will always place the mission first.
I will never accept defeat.
I will never quit.
I will never leave a fallen comrade.

I am disciplined, physically and mentally tough, trained and proficient in my warrior tasks and drills. I always maintain my arms, my equipment and myself.

I am an expert and I am a professional.

I stand ready to deploy, engage, and destroy the enemies of the United States of America in close combat.

I am a guardian of freedom and the
American way of life.

I am an American Soldier.

UNITED STATES ARMY : 1500 ARMY PENTAGON : WASHINGTON, DC, 20310-1500 : WWW.ARMY.MIL